
Volume 6

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Introduction to Volume 6

The Campus-Based Programs include the Federal Work-Study Program (FWS), the Federal Supplemental Educational Grant Program (FSEOG), and the Federal Perkins Loan Program (Perkins Loans). This volume provides the information that schools need to administer those programs.

Here, we provide a summary of the changes and clarifications presented in greater detail in the chapters that follow. **Alone, the text herein does not provide schools with the guidance needed to satisfactorily administer the Title IV, HEA programs.** For more complete guidance, you should refer to the text in the chapters cited, the Code of Federal Regulations (CFR) and the Higher Education Assistance Act (HEA) as amended:

Throughout this volume, new information is indicated with the following symbol:



When the text represents a clarification rather than a change, it is indicated with this symbol:



When we believe that historically there might be some misunderstanding of a requirement, we indicate that with:



If we want to point out a bit of helpful information, we indicate it with:



Finally, if we want to emphasize an item, we indicate it with:



Major Changes

Elements of *The Blue Book* have been incorporated into this Volume in order to provide a more complete treatment of the Campus-Based Programs. We will indicate those sections with:

Clarification

We have merged the treatment of cancellation, previously found in chapter 5, with the material in chapter 4 and renumbered chapter 6 and chapter 5.

Chapter 1 — Campus-Based Programs Common Elements

- ▶ We have added text on the treatment of transfer of FSEOG funds to a school's FWS program.
- ▶ We have added text on drawing down funds using G5.

Chapter 2 — The Federal Work-Study Program

All additions come from *The Blue Book*.

Chapter 3 — Participating in and Making Loans in the Perkins Loan Program

- ▶ We remind schools that regardless of whether a school has received a Federal Capital Contribution (FCC) or not, if a school has more cash than it plans to spend, the school should disburse any excess cash during the award year or return it to the Department.
- ▶ We remind schools that to make Perkins loans, a school must have a Perkins Loan Level of Expenditure (LOE) from ED for that award year.
- ▶ We alert schools that a revised Perkins MPN is being reviewed.
- ▶ We provide information on the steps for ending participation in the Perkins Loan Program.
- ▶ We've added coverage of Assigning Perkins Loans.
- ▶ We remind schools that they must alert borrowers if their loans are being assigned.

Chapter 4 — Perkins Repayment Plans, Forbearance, Deferment, Cancellation, and Discharge

We explain that classes that a student is auditing may not be counted toward the student's enrollment status in determining whether the student is eligible for an in-school deferment.

Chapter 5 — Perkins Loan Billing, Collection, and Default

We've added treatment of assigning Perkins Loans when a school's collection efforts have been unsuccessful.

Campus-Based Programs Common Elements

CHAPTER 1

The Campus-Based Programs include the Federal Work-Study Program (FWS), the Federal Supplemental Educational Grant Program (FSEOG), and the Federal Perkins Loan Program (Perkins Loans). This chapter addresses common elements of those programs.

CAMPUS-BASED PROGRAMS OVERVIEW

A school must first enter into a Program Participation Agreement (PPA) with the Department of Education (ED) before it can participate and make awards of FSA funds in the Campus-Based programs.

Federal Perkins Loan Program

The Federal Perkins Loan Program (Perkins Loan) includes Federal Perkins Loans known previously as National Direct Student Loans (NDSL Loans), and National Defense Student Loans (Defense Loans). No new Defense Loans were made after July 1, 1972, but a few are still in repayment. Federal Perkins Loans and NDSLs are low interest (currently 5%), long-term loans made by school financial aid offices to help needy undergraduate and graduate students pay for postsecondary education.

Federal Supplemental Educational Opportunity Grant Program (FSEOG)

The Federal Supplemental Educational Opportunity Grant Program (FSEOG) provides assistance to exceptionally needy undergraduate students. Students are exceptionally needy if they have the lowest EFCs. A priority must be given to Pell Grant recipients. Schools selecting FSEOG recipients must use the selection criteria discussed in the *Federal Student Aid Handbook, Volume 3*.

Federal Work-Study Program (FWS)

The Federal Work-Study Program (FWS) provides part-time employment to undergraduate and graduate students who need the earnings to help meet their costs of postsecondary education. The FWS Program encourages students receiving FWS assistance to participate in community service activities.

Related information

→ The rules for awarding and packaging Campus-Based aid are discussed with the other FSA programs (**Volume 3**), since the financial aid office is responsible for awarding and packaging all FSA program funds using similar rules.

Program Purposes

Perkins
34 CFR 674.1
FWS
34 CFR 675.1
FSEOG
34 CFR 676.4

PROGRAM PARTICIPATION AGREEMENT (PPA)

Program participation requirements

The basic list of Program Participation Agreement (PPA) requirements is found in 34 CFR 668.14. Under the PPA, the school agrees to use the funds it receives solely for the purposes specified in the regulations for that program and to administer each program in accordance with the Higher Education Act of 1965 (HEA), as amended, and the General Provisions regulations.

PPA requirements for Perkins

34 CFR 674.8

PPA requirements for Federal Work-Study

34 CFR 675.8

PPA requirements for FSEOG

34 CFR 676.8

When your school completed its Application to Participate (E-App)(and later during reapplication), the school had the opportunity to elect participation in one or more of the Campus-Based Programs. When a school's application is approved (see *Volume 2*) the Department will send an electronic notice to the president and financial aid officer notifying them that the school's PPA is available to print, review, sign, and return.

In addition to the requirements generally applicable to the FSA programs contained in the PPA, there are requirements unique to the The Federal Perkins Loan and Federal Work-Study (FWS) programs.

Perkins PPA requirements

The Program Participation Agreement requires the school to annually submit to the Department a report containing information that determines the school's Perkins default rate.

The agreement for the Federal Perkins Loan Program also requires the school to establish and maintain a fund and to deposit into the fund:

- any Federal Capital Contribution (FCC) the school receives as its federal allocation for the program for each award year (currently no FCC is being allocated to schools in the Perkins Loan Program);
- the Institutional Capital Contribution (ICC), including any ICC to match transfer of funds from other Campus-Based programs;
- payments the school receives for repayment of loan principal, interest, collection charges, and penalty or late charges on loans from the fund;
- payments the school receives from ED for cancellations, such as teacher service cancellations (see Chapter 4 of this volume);
- any other earnings on fund assets, including net interest earnings on funds deposited in an interest-bearing account (total interest minus bank charges incurred on the account); and
- proceeds of any short-term no-interest loans the school makes to the fund in anticipation of receipt of its FCC or of loan collections.

Federal Work-Study PPA requirements

Under the Program Participation Agreement, schools participating in the FWS Program must:

- make FWS employment reasonably available, to the extent of available funds, to all eligible students;
- award FWS employment, to the maximum extent practicable, that will complement and reinforce each recipient's educational program or career goals;
- assure that FWS employment may be used to support programs for supportive services to students with disabilities; and
- inform all eligible students of the opportunity to perform community services and consult with local nonprofit, government, and community-based organizations to identify those opportunities.

THE FUNDING PROCESS

Fiscal Operations Report — The Application to Participate

The Fiscal Operations Report and Application to Participate (FISAP) is divided into three main parts:

1. Identifying Information, Certifications and Warnings,
2. The Application to Participate in the three Campus-Based programs in the upcoming award year, and
3. The Fiscal Operations Report, in which schools provide information on any Campus-Based expenditures made during the award year just completed.

Any school that wants to obtain Campus-Based program funds for an upcoming year and all schools that have received Campus-Based program funds for the reporting year must complete an electronic FISAP. All schools that complete a FISAP must provide the information requested in the *Identifying Information, Certifications and Warning* section. A school that wishes to apply for Campus-Based program funds for the coming year must complete *The Application to Participate*. A school that received Campus-Based program funds for the award year that just ended must complete *The Fiscal Operations Report* portion of the FISAP.

The Department uses the information your school provides in the Application to Participate and Fiscal Operations Report to determine the amount of funds your school will receive for each program. The Department uses your Fiscal Operations Report data to manage the Federal Perkins Loan portfolio and monitor expenditures in the Campus-Based programs.

Treatment of FWS in 90/10 calculation

FWS funds recovered by the school are excluded from revenues in the 90/10 calculation, unless the school used those funds to pay for a student's institutional charges. (See *Volume 2* for discussion of the 90/10 calculation)

First-time Campus-Based program applicants

A school that has applied to participate in the Campus-Based programs for the first time should submit a FISAP by the deadline even if the school has not been certified to participate in the programs. The Department will calculate a funding level for the school and put the funding on "hold" status until the school has been approved to participate. See "Allocation of Funds" for more information.

FISAP Documents

The FISAP Desk Reference and FISAP instructions are available at:

<http://ifap.ed.gov/fisapformandinst/1213FISAPForm.html>

In order to submit your FISAP on the Web, you must register and obtain a password on the eCampus-Based website at:

<https://cbfisap.ed.gov/ecb/CBSWebApp/>

Once you have registered, you will receive your User ID via e-mail.

For program review and audit purposes, you must retain accurate and verifiable records for three years following the end of the award year in which the FISAP is submitted. For example, the **award year in which you will submit** the FISAP due on September 30, 2013 ends on June 30, 2013 (Award year = July 1, 2012 – June 30, 2013). You must retain all records used in the creation of the FISAP due on September 30, 2013 until June 30, 2016 (three years from June 30, 2013 – the end of the award year in which the FISAP is submitted).

The important dates in the FISAP award process are:

- *August 1* -- ED must make the FISAP software available to all participating schools.
- *October 1st* -- the final deadline for submitting the FISAP to the Department; unless it falls on a weekend, in which case the deadline is the previous business day.
- *December 15* -- all corrections to FISAP data and resolution of edits must be submitted to the Department, and you must update your Federal Perkins cash-on-hand.
- *February 1* -- ED sends tentative award notifications to all schools.
- *April 1* -- ED sends final award notifications to all eligible schools.

You will find additional information on the Fiscal Operations Report later in this chapter.

Completing and Submitting the FISAP

FISAP on the Web

Schools submit the FISAP through the FISAP on the Web, available at: <https://cbfisap.ed.gov>.

To submit the FISAP on the Web, you must have a User ID and password, which can be obtained on the eCampus-Based Website (select “Login,” and select the registration link). Once you have registered, you will receive your User ID via e-mail.

The FISAP is available for completion on the Web by August 1 of each year. It must be completed no later than October 1 of the same year. (The deadline will be earlier if October 1st falls on a weekend.) A list of all Campus-Based submission dates is posted on the FISAP on the website.

Schools may also make corrections via the FISAP on the website. For more information on amending previous submissions, see *Volume 4*.

Certifications on the FISAP

Part I of the FISAP includes two required certifications:

1. Form 80-0013, Certifications Regarding Lobbying; Debarment, Suspension, and Other Responsibility Matters; and Drug-Free Workplace Requirements.
2. Standard Form LLL, Disclosure of Lobbying Activities (should only be completed if a school expends funds for lobbying activities)

See *Volume 2* for more information on these requirements.

Address for certification/signature pages

FISAP Administrator
3110 Fairview Park Drive
Suite 950
Falls Church, VA 22042

Campus-Based Call Center For assistance submitting corrections for closed years or for questions concerning the preparation of the FISAP, contact the Campus-Based Call Center at **877-801-7168** (8 a.m.–8 p.m. Eastern time); cbfob@ed.gov.

Signing and mailing your FISAP



Although most of the information on the FISAP is submitted electronically, please remember that you must print the combined certification and signature pages for your FISAP submission, obtain the required signatures, and mail these documents (with the original signatures) to the address above.

Release of tentative & final funding levels

HEA 462(a)
34 CFR 673.4

Your school's funding levels and corresponding worksheets will be posted in the "Self-Service" area on the eCB Website before your school's Campus-Based contact person will be notified by e-mail when the tentative and the final funding levels are issued. Review your funding levels on the eCB website, and if you feel they are not correct, you may contact the Campus-Based Call Center at 877-801-7168.

Tentative Funding

Note that for all schools that complete a FISAP, the Department is statutorily required to notify you of your tentative campus based funding levels for the upcoming award year on or before February 1. This is done via e-mail communication through the eCB system. If you either do not receive this communication or believe that, for whatever reason, the tentative funding levels may be incorrect you should contact your School Participation Team representative at the nearest Regional Office to inquire about why this may have occurred. If an error has truly occurred in your Campus Based funding calculation, the Department may be able to correct the error before funding is finalized.

Federal Capital Contribution (Perkins)

Congress has not authorized any Federal Capital Contribution (FCC) through the 2012-2013 application year.

Withholding final allocation

In some cases, ED calculates a school's final allocation but does not issue the final allocation by April 1st. We may withhold a school's final allocation if:

- the school lost its eligibility to participate in FSA programs;
- the school is a new applicant for the FSA programs and/or for Campus-Based programs and has not been approved yet; or
- we have not received the FISAP signature/certification form with the required original signature of the school's CEO.

When the reason for holding the school's final allocation is resolved, we will release the school's final allocation.

Allocation of Campus-Based funds

The Department allocates funds for the Campus-Based programs directly to schools each award year, indicating for each program the amount of funding the school is authorized to receive from the Department for the award year. Using the information on the FISAP, the Department calculates the allocation amount using statutory formulas and the amount of funds appropriated by Congress for the program(s). A school will not receive an allocation that is in excess of its request. A school can receive two types of Campus-Based fund allocations—initial and supplemental.

- **Initial Allocation**—the amount that the Department first allocates to each participating school for an award year from new funds appropriated by Congress, according to statutory allocation formulas. An eligible school receives an initial allocation for each Campus-Based program in which the school participates. ED bases your school's initial allocation on the amount allocated to it for the 1999-2000 award year.
- **Supplemental Allocation**—an additional amount of Campus-Based funds from the Department that is reallocated from the amount of unused Campus-Based funds returned from the previous award year by participating schools. Criteria for distributing these funds for each program are established in accordance with the statute and regulation.

Allocation schedule

If your school submits the FISAP by the deadline (normally October 1), the Department will provide your school with tentative allocation information and your worksheet in January of the following year and with final allocation information and worksheets by April 1 for the upcoming award year. In a Dear Colleague Letter, the Department notifies participating schools that they can view the methodology used for final award figures. The methodology can be examined at <http://www.ifap.ed.gov>.

You can find the final funding worksheets for your school, your Electronic Statement of Account (ESOA), and your final award at

<https://cbfisap.ed.gov>.

To access your school's final funding level worksheets and individual school awards, log in to the eCB website, select the **Self-Service** link from the top navigation bar, and scroll to the **Campus-Based Notification Section**. Then, select **Final Awards** and **Statement of Account**.

The *Final Funding Worksheet* shows the data that was used to determine a school's allocation for each Campus-Based program in which it participates and how each final allocation was determined.

If your school doesn't receive its final allocation by April 1, it may mean that—

- your school lost its eligibility to participate in FSA programs;
- your school is a new applicant for the FSA programs and/or for the Campus-Based programs and its participation hasn't been approved yet; or
- the Department has not received the FISAP signature/certification form with the required original signature of the school's CEO.

If the reason(s) for holding the school's final allocation is/are resolved, the Department will release the school's final allocation.

The worksheet shows the actual numbers that were used to determine a school's allocation for each Campus-Based program in which it participates and how each final allocation was determined.

If your school is awarded a Supplemental Allocation, the Department will inform you before the end of September of the award year.

It is important for schools to review their tentative allocations and the supporting worksheets so that they can address any concerns before the allocation becomes final.

Releasing and reallocation of funds

If a school does not use its total allocation during an award year, it should return unexpended allocations of federal funds to the Department so that the money can be reallocated to schools that need additional funds (supplemental allocations). This return of unexpended funds is called *releasing Campus-Based funds*.

Each year in July the Department posts an Electronic Announcement (EA) at <http://ifap.ed.gov> that asks schools to release any previous award year funds that they have not expended and offers schools the opportunity to request supplemental FWS funds for community service. The Reallocation Form for schools wishing to return funds or request supplemental FWS funds can be found in the Setup Section of the *e-Campus-Based* website (<https://cbfisap.gov>).

You must complete the Campus-Based Reallocation Form (on the *eCampus-Based* website) if you—

- do not intend to spend your entire allocation in any of the Campus-Based programs, or
- want to request supplemental FWS funds to pay students in community service jobs (based on the criteria discussed later in this section).

Reduction and reallocation

34 CFR 673.4(d)(3)

Waiver of allocation reduction

To request a waiver, a school must submit an explanation of the circumstances with its FISAP. ED explains the process a school must use to request a waiver in the FISAP instruction booklet.

ED may waive this provision for a specific school if the school returned more than 10% of its allocation due to circumstances that are beyond the school's control, and are not expected to recur.

Releasing unexpended funds

34 CFR 673.4(d)(3)

Reallocation of unexpended Campus-Based funds

Unexpended FSEOG and FWS funds returned to ED will be reallocated to an eligible school in a manner that best carries out the purposes of the FSEOG program. In years in which the Department makes a Federal Capital Contribution; ED reallocates 80% of returned Perkins loan funds in accordance with 462(i) of the HEA and reallocates 20% in a manner that best carries out the purposes of the program. For more detail on reallocation for the current award year, please review the Campus-Based Electronic Announcements on IFAP at

<http://ifap.ed.gov>.

A school may request supplemental FWS funds if it has—

- spent at least 5% of its total FWS funds for the award year to compensate students employed as reading tutors of children or in family literacy activities as part of its community service activities, and
- an FWS fair share shortfall as shown on the school's final funding worksheet, provided with the final allocation letter.

If a school returns more than 10% of its allocated funds for a given award year in any one of the Campus-Based programs, the Department may reduce the school's allocation for the second succeeding award year by the dollar amount returned unless the Department waives this provision. For example, if the school returns more than 10% of its 2011-2012 allocation, its 2013-2014 allocation may be reduced by the dollar amount returned for 2011-2012. If the school can show just cause, the Department can waive this provision. The waiver must be requested in writing.

The Department may waive this penalty provision for a school if it finds that enforcement would be contrary to the interests of the program. To request a waiver, a school must submit an explanation with its FISAP by the deadline that shows that the school returned more than 10% of its allocation due to circumstances beyond its control and that are not expected to recur.

After schools release their unexpended allocations, ED reallocates the funds to schools that have met the criteria for receiving a supplemental allocation. Criteria for distributing these funds for each program are established in accordance with the HEA and the Campus-Based program regulations.

PAYMENT METHODS AND CONDITIONS

Before requesting and disbursing FSA program funds, schools must meet certain conditions. These conditions vary depending on the way ED provides funds to schools. For more detail about the methods and conditions through which ED provides funds, see Volume 4. In all cases, a school may not request funds in excess of the actual disbursements it has made or will make to students plus any Administrative Cost Allowance (ACA), if applicable.

TRANSFER OF CAMPUS-BASED FUNDS

To help meet their students' need, schools may transfer funds from certain Campus-Based programs into certain other Campus-Based programs. The Department's permission is not required. Schools may also carry FWS or FSEOG funds back to the previous award year or forward to the next year.

Several general rules apply to the transfer of funds between Campus-Based programs:

- You must award transferred funds according to the requirements of the program to which they are transferred.
- You must report the transfer of funds on the Fiscal Operations Report portion of the FISAP.
- Any transferred funds that are unexpended must be transferred back to the original program at the end of the award year.

You may not transfer funds from one program to another unless you have awarded funds to students in the program from which you are transferring in the same award year. For example, you may not transfer FWS funds to another program in 2012-2013 if you are not also making FWS awards in 2012-2013.

Descriptions of individual program fund transfers follow. **In all cases, funds transferred that are unexpended at the end of the award year must be transferred back to the original program, and all transfers must be reported on the FISAP.**

Transfer

34 CFR 674.18(b)

34 CFR 675.18(e)

34 CFR 676.18(b)

FWS transfer to Perkins and FSEOG transfer to FWS

U.S.C. 1095 [HEA section 488]

A school's future allocations for the Campus-Based programs are not affected by past transferring of funds between programs.

If a school transfers Federal Perkins loan funds to either FSEOG or FWS before depositing those funds in the school's Federal Perkins Loan fund, the school does not have to provide the ICC match for the transferred funds, only the match required by the FWS or FSEOG programs.

G5 entry required:

Any Campus-Based funds transferred to another program must be entered in G5 as a drawdown against the original program award, NOT the program to which the funds were transferred.

FSEOG

A school may transfer up to 25% of its FSEOG allocation to its FWS allocation. (A school must have an FWS and FSEOG allocation for any year it wants to transfer funds from FSEOG to FWS.) Also, you may not transfer FSEOG funds to FWS unless you have awarded FSEOG funds to students in the same award year that you intend make the transfer.

A school may not transfer funds carried forward or back from other award years.

A school must match any FWS funds transferred to FSEOG at the matching rate of that FSEOG program, but the match doesn't have to be made until the transfer has occurred.

FWS

You may not transfer FWS funds to FSEOG unless you have an allocation in both programs and have made awards to students from both programs for the award year. Your school must have a Perkins Loan Level of Expenditure from the Department for the award year in order to transfer funds to Perkins.

A school may transfer up to 25% of the sum of its initial and supplemental FWS allocations for an award year to its FSEOG or Perkins Loan program. Funds carried forward to the next year or carried back to the previous year do not change the basis for the 25% maximum transfer. You must match any FWS funds transferred to FSEOG at the matching rate of the FSEOG Program, but the match doesn't have to occur until after the transfer has occurred.

If your school is actively advancing Perkins funds to students, you may transfer up to 25% of your total FWS allotment allocation (initial and supplemental) to your Perkins Loan fund, in addition to transfers made to the FSEOG Program. You must make the appropriate Institutional Capital Contribution as soon as you make the transfer.

School must have Perkins LOE for award year

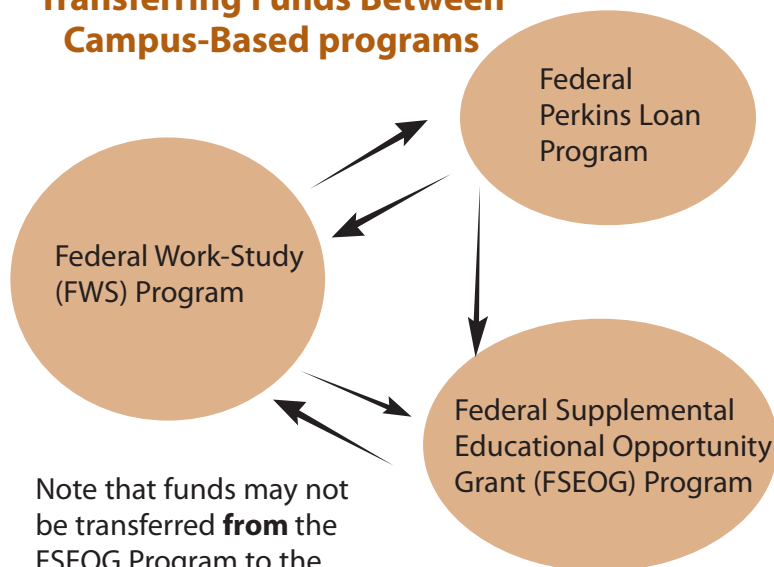
Because a school maintains a revolving Perkins Loan fund, it does not need to receive a Perkins Loan FCC allocation for an award year to be able to transfer an allowable percentage of its FWS allocation for that award year to the Federal Perkins Loan Program. However, the school must have a Perkins Loan Level of Expenditure (LOE) from ED for that award year. The LOE is the authority from ED for the school to participate and spend monies from the Perkins Loan Fund for that award year, including making new loans to students. The official FWS allocation letter and the Perkins Loan LOE is the school's authority to exercise the FWS to Perkins Loan transfer option.

Note: A school may not transfer funds from FWS to Perkins to resolve unexpended funds or avoid a penalty.

Perkins

A school may transfer up to 25% of its annual Federal Perkins Loan allocation to FSEOG or FWS. If your school is a work-college, you may transfer up to 100% of your total Federal Perkins Loan allocation (initial plus supplemental) to the Work-Colleges Program. You must match any Federal Perkins funds transferred to FSEOG or FWS at the matching rate of that program. You must adjust the match as soon as you make the transfer. Except for work-colleges, the total transfer cannot exceed 25% of the Federal Perkins Loan allocation, whether the transfer is made only to one program or divided between FSEOG and FWS.

Transferring Funds Between Campus-Based programs



Note that funds may not be transferred **from** the FSEOG Program to the Perkins Loan Program.

Questions about transferring funds or carrying them forward or back

If you have questions regarding Campus-Based Program fund adjustments, transferring funds between Campus-Based programs, or the carry forward and carry back authority for Campus-Based funds, contact the Campus-Based Call Center at:

877-801-7168

Customer service representatives are available Monday through Friday from 8:00 A.M. until 8:00 P.M. (ET). You may also e-mail

CBFOB@ed.gov.

FSEOG AND FWS CARRY FORWARD/CARRY BACK

Your school may spend up to 10% of its current year's FWS or FSEOG allocation (initial and supplemental) in the **following** award year (**carry forward**). Before a school may spend its current year's allocation, it must spend any funds carried forward from the previous year.

Your school is also permitted to spend up to 10% of its current year's FWS or FSEOG allocation (initial and supplemental) for expenses incurred in the **previous** award year (**carry back**).

Your school must match FWS or FSEOG funds carried forward or carried back in the award year that they are spent. A school's future FWS or FSEOG program allocation is not affected by carrying forward or carrying back funds between award years.

Carry back funds for summer FWS employment and FSEOG awards

You may carry back FWS funds for summer employment; that is, you may use any portion of your school's initial and supplemental FWS allocations for the current award year to pay student wages earned on or after May 1 of the previous award year but prior to the beginning of the current award year (July 1). This summer carry back authority is in addition to the authority to carry back 10% of the current year's FWS allocation for use during the previous award year.

General principles

The official allocation letter for a specific award period is the school's authority to exercise these options. A school may not carry forward or carry back FWS funds to any award year in which there is no specific FWS allocation, and the same requirement holds for FSEOG funds.

G5: funds carried forward/back

Any FWS funds carried forward or carried back between award years must be entered in G5 as an expenditure against the FWS authorization for the award year from which the funds were taken, not the authorization for the award year in which the funds were used. The same requirement holds for FSEOG funds.

Carry forward/carry back

34 CFR 675.18(b)(c)(d)(e) & (f)

34 CFR 676.18(b)(c)(d)(e) & (f)

Also, your school may spend any portion of its current award year's initial and supplemental FSEOG allocations to make FSEOG awards to students for payment periods that began on or after May 1 of the prior award year but ended prior to the start of the current award year (**carry back for summer**). This carry-back authority for summer FSEOG awards is in addition to the authority to carry back 10% of the current award year's FSEOG allocation for use during the previous award year.

FWS limitations on use of funds carried forward or back

Schools are not permitted to add funds that are carried forward or back to the total FWS allocation for an award year when determining the maximum percentage of available funds that may be used in that award year for any of the following purposes:

- transferring FWS funds to FSEOG;
- providing the federal share of wages in private for-profit sector jobs; or
- the Job Location and Development (JLD) Program.

For example, if a school carries \$10,000 forward from 2011–2012 to 2012–2013, it may not include the \$10,000 in the total 2012–2013 FWS allocation for these three purposes. For these purposes, the 2012–2013 percentage is based on a school's total 2012–2013 original FWS allocation plus any supplemental FWS allocation for the 2012–2013 year.

Reporting funds carried forward and back

On the FISAP, you must report FWS or FSEOG funds that your school carries back and carries forward. For example, if a school carried forward 10% of its FWS 2011–2012 allocation to be spent in 2012–2013, the school must report this amount on the FISAP in Part V of the Fiscal Operations Report for 2011–2012 (due October 1, 2012 (because September 30 falls on Sunday)).

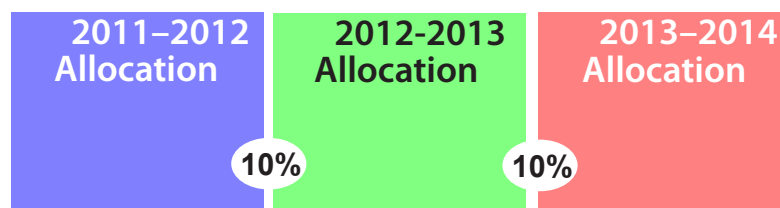


G5 Transactions

The transfer provisions do **NOT** allow for moving funds between programs and between years within the G5 payment system. The transfer of Campus-Based funds is reported on the Fiscal Operations Report and Application to Participate (FISAP) only.

Adjustments are **NOT** made in the G5 payment system. All funds must remain in the G5 system in the original program award identifier (P033AxxXXXX for FWS and P007AxxXXXX for FSEOG) and in the year received.

Carry forward/carry back



Rule: for both the FWS and FSEOG programs: a school may transfer up to 10% of its current year allocation (initial and supplemental) *forward* to the next award year, or *back* to the previous award year.

FEDERAL AND NONFEDERAL SHARES (MATCHING)

The amount that a school may spend in a Campus-Based program is composed of both federal and nonfederal funds. With the exception of certain schools (see below), schools that participate in the Campus-Based programs must provide nonfederal funds as a *match* for the federal funds they receive. The specific matching requirements for each Campus-Based program are different. For more detail on the requirements of federal and nonfederal shares for each program, see the program-specific sections later in this chapter.

Matching at Exempted Institutions

If you receive designation as one of the following types of schools, you are exempt from the matching requirement for students receiving FWS and FSEOG at your school. You must reapply annually for this designation. If you do not apply and receive certification that you have been designated as one of these types of institutions, your school is not exempted from the matching requirement. For more on applying for this designation, see the FISAP instructions at

<http://cbfisap.ed.gov>.

Exempted Institutions

Part 606 of 34 CFR:

Developing Hispanic-Serving Institutions Program

Part 607 of 34 CFR:

Strengthening Institutions Program,
American Indian Tribally-Controlled Colleges and
Universities Program,
Alaska Native and Native Hawaiian-Serving
Institutions Program

Part 608 of 34 CFR:

Strengthening Historically Black Colleges and Universities

Part 609 of 34 CFR:

Strengthening Historically Black Graduate Institutions Programs

Applying for Title III Designation/Excepted School

Institutions must apply annually for a Title III designation. If a school is unsure of its Title III eligibility for an award year, or if it needs to apply for Title III eligibility, the school should contact:

U.S. Department of Education
Institutional Development
Undergraduate Education Service
Title III Eligibility Designation
1990 K Street, NW, 6th Floor
Washington, DC 20006-8512

Telephone: **202-502-7777**

Waiver of the FSEOG nonfederal share requirement

Your school is considered to have applied for a waiver of the nonfederal share requirement if your school is designated as an excepted school, and your school submits a complete FISAP by the established deadline. Such schools will receive a letter from the Department indicating that they have been granted a waiver of the nonfederal share requirement. (For more information, see *The Blue Book*, available on IFAP.)

Federal Share

34 CFR 674.8(a)
34 CFR 675.26 & 675.33(b)
34 CFR 676.21

Federal share of FWS

In general, the federal share of FWS wages paid to a student may not exceed 75% of the student's total wages. However, there are some important exceptions to this rule.

If the student is working for a private for-profit organization, the federal share of the student's wages may not exceed 50%. On the other hand, a school may use the federal share to pay up to 100% of the FWS wages if the work performed by the student is for the school itself and the school is an excepted institution as described in chapter 1 or a federal, state, or local public agency, or for a private nonprofit organization. The student must be:

- performing civic education and participation activities in community service projects;
- employed as a reading tutor for preschool-age children or elementary school children;
- employed as a mathematics tutor for children in elementary school through ninth grade; or
- performing family literacy activities in a family literacy project that provides services to families with preschool or elementary age children.

A school is not required to ask the Department for a waiver of the FWS nonfederal share requirement to receive the 100% federal share authorization for an FWS student employed in one of these jobs. Instead, the school should use 100% federal dollars to pay such a student and then show on its FISAP that it did so.

A school may use the federal share of FWS wages to pay up to 90% of a student's wages if:

- The student is employed at a private nonprofit organization or a federal, state, or local public agency. (Employment at the school itself is not eligible.)
- The school does not own, operate, or control the organization or agency. To satisfy this requirement, your school must keep a statement in the school's file, signed by both the agency and the school, stating that they have no such relationship.
- The school selects the organization or agency on an individual, case-by-case basis. This requirement is satisfied when the school selects the agency through its normal process of selecting potential employers.

Job location & development

A school may use up to 10% or \$75,000 of a school's FWS allocation for its Job Location and Development Program.

The federal share of allowable costs in carrying out the JLD Program may not exceed 80% of such costs. (See *Chapter 2* of this volume.)

Wages from federal agency

The portion of the FWS wages contributed as the school share by a federal off-campus agency is not considered part of the "federal share." Thus, a federal agency may provide the required share of student compensation normally paid by off-campus agencies plus any other employer costs that they agree to pay.

Separate FISAP for locations ineligible for waiver

If your school files a FISAP on behalf of two or more separately eligible school locations, but not all of these locations are eligible for a waiver of the nonfederal share requirement, you must file a separate FISAP for any locations that are not eligible for a waiver of the nonfederal share requirement. Only those locations that are eligible will receive a waiver of the nonfederal share requirement.

Contributing greater than minimum nonfederal share of FWS

An employer can choose to contribute more than the minimum required nonfederal share. For example, if a school has a large demand for FWS jobs from its various departments, it may contribute more than the usual 25% to allow for additional employment. However, schools should not report any contributions over the 25% requirement on the FISAP.

- The organization or agency must be unable to pay the regular nonfederal share. To satisfy this requirement, the school must keep in its file a signed letter from an official of the agency stating that the agency cannot afford to pay the regular nonfederal share.
- The 90% federal share is limited to no more than 10% of the students paid under the FWS Program. For purposes of this calculation, the school must use the total number of FWS students paid during the current award year. The 10% limit on the number of students paid with the 90% federal share does not include students whose FWS wages have been exempted from the full nonfederal share requirement due to being employed as a reading or mathematics tutor, performing family literacy activities, or performing civic education and participation activities in community service projects.

Federal share of Perkins

The federal funds allocated to a school in an award year under the Federal Perkins Loan Program are called the Federal Capital Contribution (FCC), and the matching share is called the Institutional Capital Contribution (ICC). Note that Congress has not authorized new Federal Capital Contribution for 2012–20213.

Federal share of FSEOG

In general, the federal share of **Federal Supplemental Educational Opportunity Grant (FSEOG)** awards made to students may not exceed 75% of the total FSEOG awards made by the school.

The federal share can be 100% for a school designated as eligible under Title III or Title V of the HEA. Schools wanting a waiver of the institutional-share requirement under the FSEOG Program are no longer required to check a field on the FISAP to request this waiver. Your school will be considered to have applied for this waiver if you:

- submit a completed FISAP by October 1 of the previous year, and
- are designated as Title III eligible.

These schools will receive a letter from ED, addressed to the financial aid administrator, indicating that they have been granted a Title III waiver of the institutional-share requirement for the FSEOG program for the upcoming award year. A school that receives this waiver has the option to continue providing an institutional share and determining the amount of that share.

NONFEDERAL SHARE

Nonfederal share of FWS

Nonfederal share of FWS

FWS 34 CFR 675.27

The nonfederal share of a student's FWS wages must be at least 25% each award year, except as noted in the previous section. Your school may use any resource available to pay its share of FWS compensation except federal funds allocated under the FWS Program (or any other program funds where this use is prohibited). The school's share may come from its own funds, from outside funds (such as from an off-campus agency), or from both. However, if a student is employed by a private, for-profit organization, that organization must provide the nonfederal share.

Your school may also pay the institutional share with noncash contributions. If the school's noncash contribution is less than the remaining 25%, the school must make up the difference in cash.

Funds from programs sponsored by federal agencies (such as the National Science Foundation or the National Institutes of Health) may be used to pay the nonfederal share, as long as the programs have the authority to pay student wages. A school should contact the appropriate federal agency to see if the program in question does have this authority.

Nonfederal share of FSEOG

Nonfederal share of FSEOG

34 CFR 676.21(c)

The school must ensure there is a nonfederal match of 25% of the total FSEOG awards. The nonfederal share of FSEOGs must be made from the school's own resources. These resources may include:

- institutional scholarships and grants;
- waivers of tuition or fees;
- the nonfederal portion of state scholarships and grants; and
- funds from foundations or other charitable organizations.

The nonfederal share requirement is 25% of awards to students (unless the school qualifies for a waiver as discussed under *Overview of federal and nonfederal shares* earlier in this chapter). In the following discussion of these methods, you should note that **for a student to meet the definition of an FSEOG recipient, some portion of the grant awarded the student must have come from the FSEOG federal dollars.**

All state scholarships and grants, except for the Leveraging Educational Assistance Partnership (LEAP), the Special Leveraging Educational Assistance Partnership (SLEAP) program, and the Grants for Access and Persistence (GAP) awards are eligible funds that may be used to meet the nonfederal share requirement of FSEOGs. However, since the LEAP/SLEAP and GAP programs are not funded for 2012-2013, the full amount

(100%) of the State scholarships and grants an FSEOG eligible student received from a State are eligible funds that may be used to meet the FSEOG nonfederal share requirement for 2012-2013. For 2012-2013, the Department will not publish an Electronic Announcement with a chart showing the different percentages of state scholarships and grants that may be used for each state as the nonfederal share of FSEOG awards.

By the time the FSEOGs are disbursed (regardless of when in the award period the disbursements are made), the required match must have been accomplished; that is, the school's own resources must have been disbursed before or at the time the federal dollars are disbursed. However, outside resources (such as state grants, foundation, or other charitable organization funds) can be used to match FSEOGs even if the funds are received at a later date, provided that the school has written information about funds that the non-institutional agency or organization is awarding to the student involved. The written information must be kept on file at the school.

Types of nonfederal FSEOG matching

Individual recipient basis

The school ensures that the nonfederal match is made to each individual FSEOG recipient together with the federal share in such a way that **every student's FSEOG award consists of 75% federal funds and 25% qualified nonfederal funds**. A school using this method calculates and documents on a student-by-student basis what portion of the student's FSEOG award comes from federal funds and what portion comes from nonfederal funds.

Aggregate basis

The school ensures that the sum of all funds awarded to all FSEOG recipients in a given award year consists of 75% federal dollars and 25% qualified nonfederal funds. A school using this method calculates and documents on an aggregate basis what portion of total federal *and* qualified nonfederal funds awarded to all FSEOG recipients comes from federal funds and what portion comes from nonfederal funds.

For example, if a school awards a total of \$60,000 to all FSEOG recipients in an award year, it must ensure that \$45,000 comes from federally allocated funds and \$15,000 comes from nonfederal funds. The school may meet this requirement by awarding qualified nonfederal funds to FSEOG recipients on a student-specific basis. For example, if the school makes a total of \$60,000 in FSEOG awards to a total of 100 students, the entire nonfederal share may be met by awarding a total of \$15,000 in nonfederal resources to only five FSEOG recipients. **However, each of the 100 FSEOG recipients must receive some FSEOG federal funds.**

Fund-specific basis

The school establishes an FSEOG account for federal program funds and deposits the required 25% qualified nonfederal matching share into the fund. The matching funds must be deposited at the same time the federal funds are deposited. Awards to FSEOG recipients are then made from this *mixed* fund. Schools using the fund-specific method must deposit their institutional match at the time they receive the federal share funds. **For the purpose of a Return of Title IV funds calculation, 100% of the funds are considered federal funds when a school uses this method of matching.**

Nonfederal share of Perkins

The nonfederal share required from the school's own funds for the Federal Perkins Loan Program is called the Institutional Capital Contribution (ICC). Even though there will be no new FCC for 2012–2013, a school may elect to make its own contributions to the Perkins revolving fund through a short-term loan reported on the FISAP.

ADMINISTRATIVE COST ALLOWANCE (ACA)

A school participating in the Campus-Based programs is entitled to an Administrative Cost Allowance (ACA) for an award year if it advances funds under the Perkins Loan Program, provides employment under the FWS Program, or awards grants under the FSEOG Program to students in an award year. The ACA may be used to help offset administrative costs, such as salaries, furniture, travel, supplies, and equipment. The ACA can also be used for service fees that banks charge for maintaining accounts. Computer costs associated with Perkins Loan billing may also be paid from this allowance. Schools may use the allowance to help pay the costs of administering not only the Campus-Based programs but the Federal Pell Grant Program as well. Administrative costs also cover expenses for carrying out the student consumer information services requirements.

The amount of the ACA is calculated as a percentage of the school's expenditures to students for an award year under the Campus-Based programs.

$$\begin{array}{r}
 5\% \text{ of the first } \$2,750,000 \text{ of a school's} \\
 \text{Campus-Based expenditures to students} \\
 \\
 + \\
 \\
 4\% \text{ of Campus-Based expenditures} \\
 \text{greater than } \$2,750,000 \text{ but less than } \$5,500,000 \\
 \\
 + \\
 \\
 3\% \text{ of Campus-Based expenditures} \\
 \text{greater than } \$5,000,000
 \end{array}$$

When a school calculates its ACA for the award year, the school is to include in its calculation the full amount of its FSEOG awards—both the 75% federal share and the required 25% nonfederal share. However, a school that chooses to provide more than a 25% institutional share to FSEOG recipients may not include an FSEOG institutional share in excess of 25% in its FISAP or in the calculation of its ACA.

If a school makes no match after receiving a waiver of its required institutional share for the FSEOG Program or the FWS Program, that school's ACA may be calculated only on the full federal portion of its awards for those programs.

Note that a school may not request a Perkins ACA if it has not made any Perkins Loans during the year.

Administrative Cost Allowance Calculation

34 CFR 673.7

Using ACA to train FWS tutor

A school may use a portion of its Administrative Cost Allowance (ACA) to cover the costs of training an FWS tutor. A school may also use a portion of its ACA to cover expenses that are related to employing a student as a tutor with a local school district and that the school may not incur with another organization. If, for example, a school district requires all employees to undergo a background check and be fingerprinted at a cost of \$40 per employee, the postsecondary school may use a portion of its ACA to cover this cost. The FWS Program does not provide for any additional funds beyond the ACA for technical assistance and training of tutors.

TIP

The school takes the ACA out of the annual authorizations the school receives for the FSEOG and FWS programs and from the available cash on hand in its Perkins Loan fund. It is not a separate allowance sent to the school. A school may draw its allowance from any combination of Campus-Based programs, or it may take the total allowance from only one program provided there are sufficient funds in that program. However, a school may not draw any part of its allowance from a Campus-Based program unless the school has disbursed funds to students from that program during the award year. If a school charges any ACA against its Perkins Loan fund, it must charge these costs during the same award year in which the expenditures for these costs were made.

Your school may use up to 10% of the ACA, as calculated above, as attributable to its expenditures under the FWS Program to pay the administrative costs of conducting its program of community service. These costs may include:

- developing mechanisms to assure the academic quality of a student's experience;
- assuring student access to educational resources, expertise, and supervision necessary to achieve community service objectives; and
- collaborating with public and private nonprofit agencies and programs assisted under the National and Community Service Act of 1990 in the planning, development, and administration of these programs.

Some schools do not claim an ACA so that all the funds can be used for student awards. This option is the school's decision.

FUNDS AVAILABLE FOR AWARDS

The general principle for all Campus-Based programs is that the amount of funds available for awards is the federal share, plus the institutional match, minus the ACA.

PROJECTING NEED

The maximum amount of federal funds a school may draw down from each Campus-Based program is based on the school's initial allocation and supplemental allocation for that program, as reported to the school in its Final Funding Authorization from ED.

Except at those schools qualifying for the waivers discussed previously, each Campus-Based program requires that awards made to students be a combination of both federal and nonfederal funds. To accurately determine immediate cash need for Campus-Based programs, you must calculate the portion of disbursements from each program that may be made up of federal funds, including funds carried forward. *The amount of funds drawn down represents the federal share only.* You must deposit institutional matching funds **at the time the federal funds are deposited** into the account from which Campus-Based awards will be made.

A school on the **advance payment method** must determine the amount of funds it needs before it transmits a request through G5 payment system. The amount requested must be limited to the minimum amount needed to make disbursements, so excess funds do not exist after disbursements are made. For the Campus-Based programs, the amount must be enough to meet the federal share of Campus-Based disbursements and the ACA when applicable.

The following equation may be used to calculate projected immediate needs:

$$\begin{array}{rcl}
 & \textbf{Anticipated Disbursements} & \\
 \textit{minus} & \text{Balance of Cash on Hand} & \\
 \textit{minus} & \text{Anticipated Recoveries} & \\
 \textit{minus} & \text{ACH/EFT Cash in Transit} & \\
 \hline
 \textit{equals} & \text{Projected, Immediate Need} &
 \end{array}$$

In general, a school's request for funds should not exceed its **immediate need**.

Disbursing timeframe

Your school must disburse as soon as possible but no later than three business days following the day your school receives those funds.

Program-specific considerations

Federal Perkins Loan Program

A school must determine whether the cash available in its Federal Perkins Loan fund is sufficient to make loan advances to students. A school may draw down only that portion of the FCC it needs to cover disbursements for the next three business days.

FSEOG

In the FSEOG Program, a school must time its drawdowns to coincide with the date it expects to disburse FSEOG funds to students. A school may draw down only the federal share of the FSEOG awards it will disburse to students within three business days of receiving the funds.

FWS

A school must time its FWS drawdowns to coincide with its payroll dates. A school must calculate the amount of federal funds needed to meet payroll for a given pay period and draw down only the appropriate federal share of wages to be paid. Student wages must be paid within three business days of the date federal funds are received.

Timing Issues

When a school initiates a drawdown from G5, a school should consider that processing requests within G5 typically takes one to three business days and whether the school is using ACH/EFT or FEDWIRE. Schools should also be aware of system downtime, federal holidays, and other delays in processing cash requests when determining immediate need.

DRAWING DOWN FUNDS

Schools use the G5 system to draw down Campus-Based funds. To begin drawing down funds, log into G5 using your user ID and password. Note that: The G5 user ID is the e-mail address under which the user has registered. The password is a unique six- to eight-character string that may consist of letters, numbers, and special characters.

On the top panel, hover your cursor over the word *Payments*. From the options that appear, select *Create Payments*. The payment requests screen allows you to create, modify, and view payment requests.

Once you have selected Create Payments, you will see a list of awards.

The award(s) will populate with corresponding authorized and available balances from which drawdowns can be initiated. A school may use the *Recipient Reference Field* to identify the award type (i.e., FWS, FSEOG, etc.).

An important step in creating payment requests is setting the *Deposit Date*. The default deposit date displayed is based on the method the school has selected for receiving funds (ED's transmission method). The default date assumes that you are going to disburse the funds within three business days of the deposit date. However, you may set a deposit date that is up to 30 days after the current date.

For ACH payments, the default deposit date is the next business day if received prior to 3:00 p.m. Eastern time. If the request is made after 3:00 p.m. EST, the Deposit Date is the current date plus two days.

For payments by FEDWIRE, the default deposit date is the current date if the request is submitted before 2 p.m. EST, or the next day if submitted after 2 p.m..

After entering the request amount, click *Continue*. If you agree to the certification statement on the next screen, you will click *Submit* on the next page to complete the payment request.

After you have created payment requests, G5 performs validations. If the G5 system encounters a problem, the payment will not post and you will be notified by e-mail. If there's a problem with your request, you should contact the G5 Hotline for help in resolving the problem.

G5 Website: **www.g5.gov**

G5 Hotline: **Phone: 888-336-8930**

E-mail: **edcaps.user@ed.gov.**

G5 Website, User ID and Password

www.g5.gov

The G5 user ID is a unique eight-character string that the Department issues to authorized users of the G5 system. The password is another unique six- to eight-character string that may consist of both letters and numbers.

Potential errors include but are not limited to –

- deposit date that is not in the required format (MM/DD/YY);
- deposit date that is more than 30 days from the current date;
- deposit date that is earlier than the default date for the method of transmission selected in Pay By field;
- deposit date that is earlier than the award start date, or later than the last date to draw funds;
- request that is non-numeric or negative;
- request in which all fields are zero; and
- request that exceeds the available balance displayed in the available balance field.

If no errors are encountered, G5 displays a confirmation window, to ensure that the user intends to submit the information. You must click Yes to certify that the funds will be expended within three business days for the purpose and condition of the grant. Once you have completed the process, you will receive an e-mail confirming your payment request has been accepted.

CAMPUS-BASED RECORDKEEPING

A school must follow the recordkeeping requirements in the General Provisions (discussed in *Volume 2*) and those specific to the Campus-Based programs.

A school must keep financial records that reflect all Campus-Based program transactions and must keep all records supporting the school's application for Campus-Based funds. This documentation includes the applications and records of all students who applied for Campus-Based assistance for a specific award year and were included on the school's FISAP for that award year.

The school must also retain applications and records of students who applied for but did not receive aid, either because the school had no more funds to award or because the school determined that the student did not need funds. The school must keep general ledger control accounts and related accounts that identify each program transaction and must separate those transactions from all other institutional financial activity. Fiscal records must be reconciled at least monthly.

The Campus-Based records a school must maintain include but are not limited to:

- the Student Aid Report (SAR) or Institutional Student Information Record (ISIR) used to determine a student's eligibility for Campus-Based program funds;
- application data submitted to the Department or the school on behalf of the student;
- documentation of the payment of any return of Title IV funds or overpayment to the FSA program fund or the Department;
- documentation of the amount of a Perkins Loan, FSEOG or FWS award, its payment period, and the calculations used to determine the amount of the loan, grant, or FWS award;
- documentation of each FSEOG or Perkins Loan disbursement and the date and amount of each payment of FWS wages;
- documentation of the school's calculation of any refunds or overpayments due to, or on behalf of, the student and the amount, date, and basis of the school's calculation;
- information collected at initial and exit loan counseling required by Perkins Loan regulations; and
- reports and forms used by the school in its participation in a Campus-Based program, and any records needed to verify data that appear in those reports and forms.

Retention of records

General Provisions

34 CFR 668.24

Perkins loans

34 CFR 674.19

FWS

34 CFR 675.19

FSEOG

34 CFR 676.19

Electronic certification

A school that uses an electronic certification must adopt reasonable safeguards against possible fraud and abuse.

The school should provide a secure electronic certification through an electronic payroll system that includes:

- password protection;
- password changes at set intervals;
- access revocation for unsuccessful log-ins;
- user identification and entry-point tracking;
- random audit surveys with supervisors; and
- security tests of the code access.

See *Volume 2* for more information about recordkeeping, privacy safeguards, and information security.

FSEOG recordkeeping

In addition to following the fiscal procedures and records requirements mentioned earlier and in *Volume 2*, a school must meet the following requirements, which are included in the FSEOG regulations:

- A school must establish and maintain an internal control system of checks and balances that ensures that no office can both authorize FSEOG payments and disburse FSEOG funds to students.
- A school must establish and maintain program and fiscal records that are reconciled at least monthly.
- Each year, a school must submit a FISAP and other information the Department requires. The information must be accurate and must be provided on the form and at the time specified by the Department.

FWS recordkeeping

For schools administering FWS, you must also follow the procedures established in 34 CFR 675.19 for documenting a student's FWS work, earnings, and payroll transactions. You must establish and maintain an internal control system of checks and balances that ensures that no office can both authorize FWS payments and disburse FWS funds to students. If you use a fiscal agent for FWS funds, that agent may perform only ministerial acts.

In school records, schools must distinguish expenditures for FWS compensation from other institutional expenditures. You should enter FWS compensation on a separate voucher or, if listed on the general payroll voucher, you should group FWS compensation separately from other compensation. If payrolls are handled on automatic data processing equipment, you should identify FWS with a special code.

You must establish and maintain program and fiscal records that are reconciled at least monthly. The records must include a:

- payroll voucher containing sufficient information to support all payroll disbursements;
- noncash contribution record to document any payment of the school's share of the student's earnings in the form of services and equipment; and
- certification by the student's supervisor, an official of the school (or off-campus agency) that each student has worked and earned the amount being paid. Your school may use an electronic certification process. The school may still continue to have the FWS student's supervisor sign a paper certification. If the students are paid on an hourly basis, the certification must include or be supported by a time record showing the hours each student worked in clock time sequence, or the total hours worked per day.

RECORD RETENTION AND FORMATS

Availability of records & period of retention

Your school must make its records readily available for review by the Department or its authorized representative at an institutional location the Department or its representative designates. Generally, a school must keep records relating to the school's administration of a Campus-Based program for three years after the end of an award year for which the aid was awarded and disbursed under that program.

There are some exceptions to this requirement:

- The school must retain the FISAP containing reported expenditures and any records necessary to support the data contained in the FISAP, including “income grid information,” for three years after the end of the award year in which the FISAP is submitted.
- The school must keep the original signed promissory note and repayment schedule *until all loans made on the promissory note or MPN are satisfied or until the original note or MPN is needed to enforce loan collection*. Only authorized personnel may have access to these records.
- If a promissory note or MPN was signed electronically, you must store it electronically for *at least* three years after all loans made on the promissory note or MPN are satisfied. (The Department recommends that the school maintain a certified copy of the signed promissory note as well as a record of the full amount owed in its records beyond the three-year record retention requirement.) You must ensure that the promissory note or MPN can be retrieved in a coherent format.
- The school must keep *repayment* records for Perkins Loans, including records relating to cancellation and deferment requests for at least three years from the date a loan is repaid, cancelled, or assigned to the Department. If a loan is assigned to the Department due to total and permanent disability, the school must retain any loan-related documentation that it does not submit for at least three years from the date the loan is assigned (Electronic Announcement September 10, 2010).
- Records questioned in an audit or program review must be kept until the questions are resolved or until the end of the retention period applicable to the records, whichever is later.

Records readily available for review

34 CFR 668.24(d)(2) & (f)

Record formats, storage, etc.

A school must keep its Campus-Based program records in one of the following formats:

- The school must retain the original signed promissory notes and signed repayment schedules for Perkins/NDSL loans in a locked fireproof container. If a loan is assigned to the Department, the school must send the original promissory note or a certified copy of the note, as well as a copy of the original deferment or cancellation form(s). The school may not send computer-generated form(s) or microform(s).
- A school may keep other required records in hard copy or in microform, computer file, optical disk, CD-ROM, or other media formats, but all record information must be retrievable in a coherent hard copy format or in other media formats acceptable to the Department except that any document that contains a signature, seal, certification, or any other image or mark required to validate the authenticity of its information must be kept in its original hard copy or in an imaged media format.
- Any imaged media format used to keep required records must be capable of reproducing an accurate, legible, and complete copy of the original document, and, when printed, this copy must be approximately the same size as the original.

THE FISCAL OPERATIONS REPORT

The Fiscal Operations Report is parts III, IV, V, and VI of the FISAP. You may sometimes hear these parts being referred to as the FISOP. If you participated in any Campus-Based programs in an award year, by the following October you must report on your activities for those programs by completing the appropriate portions of the FISAP.

You must complete –

- Part III, if your school is a continuing participant in the Federal Perkins Loan Program;

If your school made Federal Perkins Loans to students during the recent award year, you must fill in Part III of the FISAP, even if you did not receive an FCC.

You must also complete Part III if your school is liquidating its Federal Perkins Loan portfolio. (You must do so every year until your final report shows that all outstanding loans have been assigned, fully retired, or purchased and that the federal share of cash on hand has been returned to ED and you have received the official liquidation completion letter from ED.)

- Part IV, if your school received FSEOG funds during the recent award year;
- Part V, if your school received FWS funds during the recent award year; and
- Part VI, if you participated in any of the three Campus-Based programs during the recent award year.

Important:



In each program section, you will report how much of your school's total federal allocation was used and how much remained unexpended at the end of the award year. (Your school's unexpended authorization is equal to its final adjusted authorization amount minus its total expended authorization.) If this amount is a positive dollar figure, the amount of unexpended funds will be deducted from your school's G5 grantee account. **Any calculation that results in a negative figure will not be accepted for transmission.**

FISAP

Campus-Based programs 34 CFR 673.3
Perkins Loan Program 34 CFR 674.19(d)(2)
FWS 34 CFR 675.19(b)(3)
FSEOG 34 CFR 676.19(b)(3)

Signature Requirement

The FISAP must be signed by the CEO, president, or someone with the equivalent level of authority. With their signature, they are certifying –

- the information submitted on the FISAP is true and accurate;
- no one managing the programs has been debarred or suspended;
- the school is a drug-free work place; and
- no federal funds are spent on any lobbying activities.

FISAP Documents

The FISAP school link is at

<https://cbfisap.ed.gov>

You can access all FISAP references from there.

Signing and mailing your FISAP

Although most of the information on the FISAP is submitted electronically, please remember that you must print the combined certification and signature pages for your FISAP submission, obtain the required signatures, and mail these documents (with the original signatures) to the address provided earlier in *Completing and Submitting the FISAP*.

FISAP - Part III, the Federal Perkins Loan section

The Federal Perkins Loan section of the FISAP consists of the following sections:

- *Section A* – is a historical/cumulative report of your school's Federal Perkins Loan fund activity from the inception of the program through the end of the award year. **It is the balance sheet for your Federal Perkins Loan fund, and it must balance.**
- *Section B* – is where you report Federal Perkins Loan activity that took place during the **recently completed award year**.

Note: Line 5 in Section B asks you to report the unexpended amount of final adjusted FCC for award year not drawn down from G5.



If the amount in this field is more than 10% of your allocation, your total award for next year will be reduced by the same amount. Many schools misread this field and report their authorization here. If you make this mistake, your award will be reduced to zero!

- *Section C* – is where you report **cumulative repayment information** as of the end of the reporting year. This summary includes all data from your school's initial participation in the program through the recently completed award year.
- *Sections D and E* are used to calculate your school's **cohort default rate**. Use Section D if your school had 30 or more borrowers who entered repayment during the award year. Otherwise, use Section E.

Here, a cohort refers to a group of borrowers that went into repayment during a particular year. The cohort moves up one year with each FISAP. Of the borrowers that went into repayment during the relevant year, the school reports how many were in default at the end of the following year. Schools that had fewer than 30 borrowers going into repayment use a three-year cohort.

FISAP - Part IV, the FSEOG section

Your school must complete Part IV if it received FSEOG Program funds for the award year. The five sections in this part of the FISAP summarize your school's use of FSEOG funds during the previous year. The data you report in this section is used to –

- determine underuse penalties in FSEOG;
- account for and close out funds awarded and transferred in FSEOG for the Fiscal Operations Report year; and
- monitor the program (e.g., validate expenditure and balance totals by using the G5 “Award History Report”).

Matching Requirements - Remember, unless your school has a matching waiver, it is required to contribute an additional amount equal to 25% of the awards to students from its own resources. So, unless you have a waiver, when reporting the total amount of FSEOG funds paid to recipients the amount must consist **exactly** of the required 75% federal and 25% nonfederal shares. (See DCL-CB-05-03 and the discussion earlier in this chapter under FSEOG nonfederal share.)

Note: Any funds recovered on prior year awards should be returned to ED using existing G5 refund procedures. Refunds should be applied to the award corresponding to the funding year the recovered funds were awarded.

TIP

In field 17, your school reports the expended FSEOG authorization. This amount must agree with the final FSEOG expenditures reported in G5.

FISAP - Part V, The FWS section

Your school must complete Part V if it received FWS Program funds for the award year. The nine sections in this part of the FISAP summarize your school's use of FWS funds during the previous year. The data you report in this section is used to –

- provide data for underuse penalties;
- account for and close out funds awarded in FWS for the Fiscal Operations Report year;
- monitor the program (e.g., validate expenditure and balance totals by using the G5 “Award History Report”);
- report program transfers made during the year; and
- provide data for community service requirements.

TIP

If the nonfederal share of student compensation was paid in kind (for example, as a tuition waiver or room and board), the in-kind compensation value must be converted to a cash amount and reported in this section of the FISAP as part of your matching funds.

When completing this section, it's important to remember that –

- The institutional share includes amounts contributed by off-campus employers in addition to amounts contributed by the school itself.
- If your school has a Title III/V waiver, you will report this share as zero.
- Any amount that your school spends for reading tutors of children/family literacy programs does not have to be matched.

Note: In section E of this part, you will report how much of your school's total federal FWS allocation was used and how much remained unexpended at the end of the award year. (Your school's unexpended FWS authorization is equal to its final adjusted FWS authorization amount minus its total expended FWS authorization.)

If this amount is a positive dollar figure, the amount of unexpended FWS funds will be deducted from your school's G5 grantee account. Any calculation that results in a negative figure will not be accepted for transmission.

FISAP -Part VI, The Program Summary

Your school must complete Section A of the Part VI, if it made any awards to students from any Federal Campus-Based program. This data is used to provide statistical data for analysis. In Section A, you will report these expenditures by income category and type of student. In Section B, an amount is calculated for the ACA your school can claim on the basis of its total Campus-Based program expenditures, as reported in Parts III, IV, and V of the FISAP.

FREQUENCY AND AMOUNT OF FSEOG DISBURSEMENTS

If a student is awarded an FSEOG, you must pay the student a portion of this award in each payment period, even if you do not use standard academic terms. Within a payment period, a school may advance funds in whatever installments it determines will best meet the student's need. To determine the amount of each payment period's FSEOG disbursement, you divide the total FSEOG award amount by the number of payment periods you expect the student to be enrolled:

$$\frac{\text{FSEOG Total Award}}{\text{Number of Payment Periods}}$$

For a school that measures progress in credit hours and academic terms, a payment period is defined as a term (semester, trimester, quarter). The definition of a payment period for a school that does not have academic terms or a school that measures progress in clock hours is discussed in more detail in *Volume 3*.

Uneven costs/unequal disbursements

If the student incurs uneven costs or receives uneven resources during the year and needs extra funds in a particular payment period, you may make unequal FSEOG disbursements.

INTERNAL CONTROLS IN THE FSEOG PROGRAM – RECONCILIATION, FISCAL AND PROGRAM RECORDS

Your school must reconcile, at least monthly, your FSEOG draws recorded in G5 to the funds received in the bank account your school has designated to receive electronic transfers. You must also reconcile monthly the amount drawn down and received to the amounts disbursed to students or returned to ED, and explain all discrepancies.

In addition, you should examine your FSEOG program and fiscal records monthly. Did the fiscal records on which you based your anticipated need for FSEOG funds accurately predict your disbursements, or are you returning unused funds? Were your matching funds deposited at the same time you received your federal share?

Payment of FSEOG

34 CFR 676.16(a)

Uneven costs/uneven payments

34 CFR 676.16(b)

Payment periods

34 CFR 668.4

FSEOG Withdrawal and Return of Title IV Funds

If a student ceases attendance after receiving a lump sum FSEOG payment (of less than \$501, or after receiving a disbursement in a second payment period that includes funds for the previous period), only that portion of the FSEOG intended for the payment period in which the student was attending class should be included in the Return calculation.

Fiscal procedures and records

34 CFR 676.19

The Federal Work-Study Program

CHAPTER 2

This chapter covers issues specific to operating a Federal Work-Study (FWS) program, including Community Service, Job Location and Development, and Work-College programs. For student eligibility criteria relating to Campus-Based programs, including FWS, refer to Volume 1. For information on selecting Campus-Based recipients, and calculating and packaging Campus-Based awards, see Volume 3.

FWS JOBS AND EMPLOYERS

A student may be employed under the Federal Work-Study (FWS) program by the school in which the student is enrolled (on campus). You may also arrange for your school's FWS recipients to be employed off campus by—

- federal, state, or local public agencies, or
- certain private nonprofit or for-profit organizations.

Off-campus FWS jobs with federal, state, or local public agencies or private nonprofit organizations must be in the public interest.

Off-campus FWS jobs with private, for-profit organizations must be academically relevant to the maximum extent possible. Also, your school *must* use at least seven percent of its FWS allocation to employ students in community service jobs with at least one FWS student employed as a reading tutor for children in a reading tutoring project or performing family literacy activities in a family literacy project.

A school must make FWS jobs reasonably available to all eligible students at the school. To the maximum extent practicable, a school must provide FWS jobs that complement and reinforce each recipient's educational program or career goals.

In assigning an FWS job, a school must consider the student's financial need, the number of hours per week the student can work, the period of employment, the anticipated wage rate, and the amount of other assistance available to the student. While there is no minimum or maximum award, the amount for each student should be determined based on these factors.

Student eligibility for FWS

34 CFR 675.9

Selecting students

34 CFR 675.10

Allocation

The term allocation always refers to the initial and supplemental allocation your school receives and never refers to an amount remaining after your school carries forward or carries back funds.

FEDERAL AND NON-FEDERAL SHARE OF WAGES

FWS federal share

34 CFR 675.26

Limitations

34 CFR 675.26(a)(2) & (b)

Private for-profit organizations

34 CFR 675.26(a)(3)

When a 100% share is authorized

34 CFR 675.26(d)

90% federal share

34 CFR 675.26(a)(2)

JLD

34 CFR 675.33(b)

Timing of institutional share and noncash contributions

34 CFR 675.16(e)

In general, the federal share of **Federal Work-Study (FWS)** wages paid to a student may not exceed 75%. The 75% applies to expenditures for FWS wages and does not include any administrative cost allowance. Schools must provide at least 25% of a student's total FWS wages from nonfederal sources. For example, if a school wanted to spend \$45,000 of its FWS federal funds for student wages, it would be required to provide at least \$15,000 in nonfederal funds. A total of \$60,000 would then be available to pay student wages under the school's FWS Program.

There are situations when the ratio of federal share to nonfederal share of 75% to 25% does not apply:

- Any school may provide more than the required minimum 25% nonfederal share. For example, if a school received \$60,000 in federal funds and wished to spend a total of \$100,000 for student FWS wages, it could spend \$40,000 of nonfederal funds to do so. In this example, the federal share of students' total earned compensation under the FWS program expenditures would be 60%, while the nonfederal share would be 40%. (On the FISAP, however, you never report more than the required match.)
- For off-campus FWS jobs with private, for-profit organizations, the federal share of wages paid to students is limited to 50%. The for-profit organization must provide a nonfederal share of at least 50%. The employer may contribute a nonfederal share that exceeds the required 50%. However, **a school may use no more than 25% of its total current year initial and supplemental allocations to pay wages to students employed with private, for-profit organizations.**
- The federal share of compensation paid to students employed as reading tutors for children, mathematics tutors for children, or in a family literacy project performing family literacy activities may exceed 75% and may be as high as 100%, as documented in the school's accounting records.
- The federal share can be as much as 90% (and the nonfederal share can be as little as 10%) for students employed at a private, nonprofit organization or at a federal, state, or local public organization or agency under specific circumstances. Only organizations that are unable to afford the cost of this employment are eligible to pay a reduced nonfederal share. In addition, the school may not own, operate, or control the organization, and the school must select the organization or agency on a case-by-case basis. No more than 10% of a school's FWS students may benefit from this provision.

TIP**Community service vs. reading tutors**

These are not necessarily the same thing. In order to be considered community service, the job has to be in an area that is open, accessible, and used by the community at large. Community service includes a whole host of jobs and is not limited to reading tutors. On the other hand, reading tutors may provide tutoring to some group that would not be considered part of the community. For example, a school population is not considered "open, accessible, and used by the community at large," and therefore, in this context, is not considered a community.

- The federal share of FWS wages paid to a student may be lower than 75% if the employer chooses to contribute more than the minimum required nonfederal share. For example, if a school has a large demand for FWS jobs from its various departments, it may contribute more than the usual 25% to allow for additional employment.
- The federal share can be 100% for a school designated as described under *Matching at Excepted Institutions* in Chapter 1.

The federal share may **not** be used to provide fringe benefits such as sick leave, vacation pay, or holiday pay, or employer's contributions to Social Security, workers' compensation, retirement, or any other welfare or insurance program. These restrictions on the federal share apply even when the Department authorizes a federal share of 100% of FWS wages.

Note: The federal share of allowable costs in carrying out the JLD Program described later in this chapter may not exceed 80% of such costs.

FWS nonfederal share sources

A school can pay the nonfederal share from its own funds or other nonfederal sources such as outside funds from an off-campus employer. The school can also pay the nonfederal share in the form of documented noncash contributions of services and equipment such as tuition and fees, room and board, books, and supplies documented by accounting entries. **When matching with cash, the school must deposit its share at the same time it receives the federal share.**

Do not confuse making the match with services and/or equipment for which a school **doesn't** need permission with the situation where the school is paying in cash and crediting the student's account with a portion of the student's pay to cover institutional charges. **In the latter case, a school may not credit the student's account with FWS earnings without the student's permission.**

If a school receives more money under an employment agreement with an off-campus agency than the sum of (1) required employer costs, (2) the school's nonfederal share, and (3) any share of administrative costs the employer agreed to pay, the school must handle the excess in one of three ways:

1. use it to reduce the federal share on a dollar-for-dollar basis;
2. hold it in trust for off-campus employment during the next award year; or
3. refund it to the off-campus employer.

Nature and source of Institutional share

34 CFR 675.27

Funds from programs sponsored by federal agencies (such as the National Science Foundation or the National Institutes of Health) may be used to pay the nonfederal share, as long as the programs have the authority to pay student wages. A school should contact the appropriate federal agency to see if the program in question does have this authority.

FWS CONDITIONS OF EMPLOYMENT AND LIMITATIONS

Eligible employers

34 CFR 675.20(a)

Employment conditions and limitations

34 CFR 675.20(c)

Academic credit and work study

34 CFR 675.20(d)

Fees or commissions prohibited

34 CFR 675.27(b)

No payments at less than minimum wage

The Small Business Job Protection Act of 1996 established a sub-minimum or training wage that is lower than the minimum wage. However, **it is not permissible to pay the sub-minimum wage rate to students working FWS jobs.**

All FWS work, whether on campus or off campus, has certain conditions and limitations. FWS employment must be governed by those employment conditions, including the rate of pay, that are appropriate and reasonable according to the type of work performed, the geographic region, the employee's proficiency, and any applicable federal, state, or local law.

FWS employment must not displace employees (including those on strike) or impair existing service contracts. Also, if the school has an employment agreement with an organization in the private sector, the organization's employees must not be replaced with FWS students. Replacement is interpreted as displacement.

FWS positions must not involve constructing, operating, or maintaining any part of a building used for religious worship or sectarian instruction. In determining whether any FWS employment will violate this restriction, a school should consider the purpose of the part of the facility in which the work will take place and the nature of the work to be performed. For example, if the part of the facility in which the student will work is used for religious worship or sectarian instruction, the work cannot involve construction, operation, or maintenance responsibilities. If that part of the facility is not being used for religious worship or sectarian instruction, the school should make sure that any work the student will perform meets general employment conditions and that other limitations are not violated.

Neither a school nor an outside employer that has an agreement with the school to hire FWS students may solicit, accept, or permit the soliciting of any fee, commission, contribution, or gift as a condition for a student's FWS employment. However, a student may pay union dues to an employer if they are a condition of employment and if the employer's non-FWS employees must also pay dues.

The Fair Labor Standards Act of 1938, as amended, prohibits employers (including schools) from accepting voluntary services from any paid employee. Any student employed under FWS must be paid for all hours worked.

FWS minimum wage

Dear Colleague Letter CB-96-23

A student may earn academic credit as well as compensation for FWS jobs. Such jobs include but are not limited to internships, practica, or assistantships (e.g., research or teaching assistantships). However, a student employed in an FWS job and receiving academic credit for that job may not be –

- paid less than he or she would be if no academic credit were given;
- paid for receiving instruction in a classroom, laboratory, or other academic setting; and
- paid unless the employer would normally pay the person for the same job.

Disasters—flexible use of funds

An eligible school located in any area affected by a major disaster may make FWS payments to disaster-affected students for the period of time (not to exceed the award period) in which the students were prevented from fulfilling their FWS obligations. The FWS payments—

- May be made to disaster-affected students* for an amount equal to or less than the amount of FWS wages the students would have been paid had the students been able to complete the work obligation necessary to receive the funds; and
- Must meet the FWS matching requirements described in Chapter 1, unless those requirements are waived by the Department.

FWS payments may not be made to a student who was not eligible for FWS, was not completing the work obligation necessary to receive the funds, or had already separated from the student's employment prior to the occurrence of the major disaster.

34 CFR 675.18(i)

Disaster-affected student—a student enrolled at an institution who 1) received an FWS award for the award period during which a major disaster occurred; 2) earned FWS wages from an institution for that award period; 3) was prevented from fulfilling his or her FWS obligation for all or part of the FWS award period because of the major disaster; and 4) was unable to be re-assigned to another FWS job.

The term “major disaster” means: any natural catastrophe (including any hurricane, tornado, storm, high water, wind driven water, tidal wave, tsunami, earthquake, volcanic eruption, landslide, mudslide, snowstorm, or drought), or, regardless of cause, any fire, flood, or explosion, in any part of the United States, which, in the determination of the President, causes damage of sufficient severity and magnitude to warrant major disaster assistance under this chapter to supplement the efforts and available resources of states, local governments, and disaster relief organizations in alleviating the damage, loss, hardship, or suffering caused thereby.

—Section 102(2) of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5122(2))

JOB DESCRIPTIONS

Job descriptions for all FWS positions should be a part of the control procedures included in your school's policies and procedures manual. A written job description will help you ensure that the position is one that qualifies under the FWS program regulations. In addition, a written job description provides students with the information they need to determine whether they qualify for the job, whether the job is related to their educational or career objectives, and whether the job is of interest to them. Moreover, by considering the rates of pay applicable to the position, the qualifications for each pay level, and the qualifications of a student applicant, a financial aid administrator can determine the hours a student will need to work in order to earn the funds specified in the student's FWS award. Finally, a written job description establishes a record to which all parties can refer. In addition, a written job description can help avoid disagreements and adjudication and provide a reference in such cases.

If a student is employed with an agency or organization that provides community services, the school should, as with any other FWS position, have a job description that includes the duties and the responsibilities. Schools should use the job description to verify that the job meets the definition of community services in the FWS regulations (see the discussion under *Community Service Jobs* later in this chapter). In addition, for students performing reading tutoring or family literacy activities, the job description should support those jobs.

Each FWS position should have a job description that includes the:

- name of the position;
- classification of the position (e.g., reading tutor 1, reading tutor 2, laboratory assistant, library technician 1 or 2, etc.);
- name and address of the student's employer (the school, public agency, nonprofit organization, etc.);
- department or office in which the student will be employed;
- location where the student will perform his/her duties;
- name of the student's supervisor;
- purpose/role of the position within the organization;
- duties and responsibilities associated with the position and how they relate to the purpose/role;
- rates of pay for the position (cross-referenced to the wage rates appearing in the school's policies and procedures manual);
- general qualifications for the position and the specific qualifications for the various levels/rates of pay associated with the position;

- the length of the student's employment (beginning and ending dates);
- procedures for determining a student's rate of pay when a position has multiple rates; and
- evaluation procedures and schedules.

ESTABLISHING WAGE RATES

Undergraduate students are paid Federal Work-Study (FWS) wages on an **hourly basis only**. Graduate students may be paid by the hour or may be paid a salary. Regardless of who employs the student, the **school** is responsible for making sure the student is paid for work performed.

A school should determine the number of hours a student is allowed to work based on the student's financial need and on how the combination of work and study hours will affect the student's health and academic progress. There are no statutory or regulatory limits on the number of hours per week or per payment period a student may work, provided no overaward occurs.

FWS employers must pay students at least the federal minimum wage in effect at the time of employment. If a state or local law requires a higher minimum wage, the school must pay the FWS student that higher wage. (See sidebar for link to federal and state information.) In addition, a school may not count fringe benefits as part of the wage rate and may not pay a student commissions or fees. In determining an appropriate rate, the school must consider the following:

- the skills needed to perform the job;
- how much persons with those skills are paid in the local area for doing the same type of job;
- rates the school would normally pay similar non-FWS employees; and
- any applicable federal, state, or local laws that require a specific wage rate.

A student's need places a limit on the total FWS earnings permissible but has no bearing on his or her wage rate. It is not acceptable to base the wage rate on need or on any other factor not related to the student's skills or job description. **If a student's skill level depends on his or her academic advancement, the school may pay a student on that basis.** For example, a junior or third-year lab student may be paid a higher rate than a sophomore or second-year lab student. However, in most cases, students performing jobs comparable to those of other employees should be paid comparable wages, whether the other employees are students at different class levels or are regular employees.

Wage rates

34 CFR 675.24

Minimum wage information

The federal minimum wage is \$7.25 per hour, effective July 24, 2009.

The Wage and Hour Division of the Department of Labor posts information about federal and state minimum wage laws at:

www.dol.gov/whd

State & local minimum wage laws

The pay must meet the requirements of the state or local law. This means that when the state or local law requires a higher minimum wage, the school must pay the FWS student that higher wage. However, if the state or local law allows a wage that is less than the federal minimum wage, the FWS student must be paid at least the federal minimum wage.

Sub-minimum wages

The Small Business Job Protection Act of 1996 established a sub-minimum, or training wage, that is lower than the minimum wage. However, it is not permissible to pay the sub-minimum wage rate to students in FWS jobs.

Wages from Federal Agency

The portion of the FWS wages contributed as the institutional share by a federal off-campus agency are not considered part of the "federal share." Thus, a federal agency may provide the required share of student compensation normally paid by off-campus agencies plus any other employer costs that they agree to pay.

Federal share may not be used to provide fringe benefits

The federal share may *not* be used to provide fringe benefits such as sick leave, vacation pay, or holiday pay, or employer's contributions to Social Security, workers' compensation, retirement, or any other welfare or insurance program. These restrictions on the federal share apply even when the Department authorizes a federal share of 100% of FWS wages.

TIMESHEETS

FWS timesheets and payroll vouchers

34 CFR 675.19 (b)

You must maintain adequate timesheets or records of hours worked for FWS students. These timesheets must show, separately for each day worked, the hours a student worked, and the total hours worked during the job's payment cycle (i.e., twice a month, every week, every two weeks, etc.). These amounts and hours recorded must match the hours for which the student is paid.

FWS timesheets must be certified by the student's supervisor.

Students working for your school must have their timesheet certified by either their supervisor or an official at the school. Students working in off-campus jobs must have their timesheets certified by an official at the off-campus site.

Off-campus employers may fax in timesheets to the school, but they must also provide original copies. Original copies should be mailed or hand delivered to the school at the first opportunity. **The original copies of off-campus timesheets must be maintained by the school.**

Original records must be maintained since data from those records is submitted as part of the Fiscal Operations Report section of the FISAP.

PAYROLL VOUCHERS

Your school must provide payroll vouchers that contain sufficient information to support all payroll disbursements. At a minimum, a school's payroll vouchers should –

- include the school's name and address;
- identify the starting and ending dates of the payroll period;
- include the student's name;
- identify the student's work-study position;
- include the number of hours the student worked during the pay period;
- for undergraduate students, specify the student's hourly rate of pay;
- for a graduate student, identify the student's hourly rate of pay or the student's salary;
- include the student's gross earnings;
- itemize any compensation withheld for federal, state, county, or city taxes, and other deductions;
- include identification of any noncash payments made to the student for work during the period, and point to an auditable record of that contribution;
- include the student's net earnings;
- include a check number, duplicate receipt, or other auditable payment identification; and
- identify and itemize any overtime earnings (a student may be paid overtime with FWS funds).

PAYING STUDENTS

A student's FWS compensation is earned when the student performs the work, and the school must pay the student that FWS compensation at least once a month. Regardless of who employs the student, the school is responsible for ensuring that the student is paid for work performed.

Before a school may make an initial disbursement of FWS compensation to a student for an award period, the school must notify the student of the total amount of FWS funds the student is authorized to earn, and how and when the FWS compensation will be paid.

Except when a school's institutional share is paid from noncash sources (tuition, services and equipment, room and board, and books), the school must pay the student its share of his or her FWS compensation at the same time it pays the federal share. If the school pays a student its FWS share for an award period in the form of these noncash sources, it must pay that share before the student's final payroll period.

If a school pays its FWS share in the form of *prepaid* tuition, fees, services, or equipment for a *forthcoming academic period*, it must give the student a statement before the close of his or her final payroll period listing the amount of tuition, fees, services, or equipment earned.

A school may pay a student after the student's last day of attendance for FWS compensation earned while he or she was in attendance at the school.

A school must pay FWS compensation to a student by --

- issuing a check or similar instrument that the student can cash on his or her own endorsement; or
- initiating an electronic funds transfer (EFT) to a bank account designated by the student **after obtaining authorization**; or
- crediting the student's account at the school (after **obtaining written authorization**).

Payments to students

34 CFR 675.16

Records of noncash contributions

There are two cases under which students may not receive the net FWS earnings identified on their payroll voucher. In the first, a student who has FWS earnings at a school that provides its FWS institutional match with cash has provided written permission for the school to credit part of the student's earnings to the student's account. A school must obtain a separate written authorization from a student before any part of the student's FWS cash earnings may be credited to the student's account. The school must maintain that authorization in the student's file. In addition, the school must provide a clear audit trail showing that the student received credit on the student's account for any earnings not paid directly to the student.

The second case involves schools that provide part (or all) of their FWS institutional match with credit for tuition, fees, services, or equipment. A school that provides its institutional match with tuition, fees, services, or equipment does **not** need to obtain a student's permission. However, **before employing a student**, this type of school must provide the student with a written explanation of this procedure, including the specific percentage of the student's earnings that the student will receive in credit for tuition, fees, services, or equipment. Moreover, **before the close of the student's final scheduled payroll period**, the school must give the student a statement that itemizes the total amount of tuition, fees, services, or equipment credited to the student's account from the student's FWS earnings. In addition **the school's records must provide a clear audit trail showing that the student received credit on the student's account for any earnings not paid directly to the student**.

Earnings applied to cost of attendance

34 CFR 675.25

AUTHORIZATIONS

Except when a school's institutional share is paid with noncash sources (tuition, services and equipment, room and board, and books), a school must obtain a separate written authorization from the student if the student is paid FWS compensation by –

- crediting the student's account at the school; or
- initiating an EFT to a bank account designated by the student (**including accounts that are the basis for bank-issued debit cards**).

Written authorization

34 CFR 675.16(b) & (d)

If a school obtains a written authorization from the student, the school may hold excess FWS funds on the student's account. In obtaining the student's written authorization, a school –

- may not require or coerce the student to provide that authorization;
- must allow the student to cancel or modify that authorization at any time; and
- must clearly explain to the student how it will carry out the activity authorized.

If a student modifies the written authorization, the modification takes effect on the date the school receives the modification notice. If a student cancels a written authorization, the school may use the FWS compensation to pay only those authorized charges incurred by the student before the school received the cancellation notice.

CREDITING STUDENT ACCOUNTS

Payments to student's account and resulting credit balances

34 CFR 676.16(c)

Earnings applied to cost of attendance

34 CFR 676.25

With a student's permission, a school may credit the student's account at the school to satisfy current award year charges for –

- tuition and fees;
- board, if the student contracts with the school for board;
- room, if the student contracts with the school for room;
- other institutionally provided educationally related goods and services.

In addition, a school may credit a student's account to pay **prior award year charges** if these charges are **less than \$200**.

If a school pays a student FWS compensation by crediting the student's account, and the result is a credit balance, the school must pay the credit balance directly to the student as soon as possible but no later than 14 days after the balance occurred on the account.

HOLDING FWS FUNDS

A school receiving funds under the reimbursement payment method (see *Volume 4*) may not hold FWS funds for students. Other schools may, if authorized by the student, hold FWS funds that would otherwise be paid directly to the student.

Holding FWS funds

34 CFR 675.16(d)(5)

If a school holds excess FWS funds, the school must –

- identify the amount of FWS funds the school holds for each student in a subsidiary ledger account designated for that purpose;
- maintain, at all times, cash in its bank account in an amount at least equal to the amount of FWS funds the school holds for the student; and
- pay any remaining balance to the student by the end of the institution's final FWS payroll period for an award period.

If a student cancels the authorization to hold FWS funds, the school must pay those funds directly to the student as soon as possible but no later than 14 days after the school receives the cancellation.

RECORDS AND REPORTING IN THE FWS PROGRAM

For reporting and accounting purposes, FWS expenditures must be distinguishable from other institutional expenditures. FWS compensation should either be entered in a separate sub-ledger, or, if listed on the general payroll ledger, should be grouped separately from other expenditures. If payroll records are maintained electronically, a special *cost center*, *object class*, or *program identifier* must be used for FWS payments to students.

EARNINGS FOR THE NEXT PERIOD OF ENROLLMENT

Many FWS students must pay the bulk of their education costs before they have had a chance to earn FWS wages. To provide students with the opportunity to earn wages in time to pay more of their education costs, the Department allows students to earn FWS wages to cover expenses associated with the next period of enrollment offered by the school.

The student must be planning to enroll (or to reenroll) and must demonstrate financial need for that next period of enrollment. (The next period of enrollment is usually the next term, including a summer period, or in the case of summer earnings, the next full academic year.) A student may earn FWS funds for the next period of enrollment during any period of enrollment, including a period of enrollment that is comprised, in whole or in part, of mini-sessions. A student may also earn FWS wages towards the next period of enrollment during a period of nonattendance.

EARNINGS FOR PERIODS OF NONATTENDANCE

Earnings for periods of non-attendance

34 CFR 675.25(b)

A student may be employed through the FWS programs during a period of nonattendance, such as a summer term, an equivalent vacation period, the full-time work period of a cooperative education program, or an unattended fall or spring semester. A student must be planning to enroll (or to reenroll), and must have demonstrated financial need for the next period of enrollment. The student's FWS (net earnings minus taxes and job-related costs) during this period of nonattendance must be used to cover expenses associated with his or her financial need for the next period of enrollment.

A student whose eligibility for summer FWS employment during a period of nonattendance is based on his or her anticipated enrollment in the next period of enrollment may fail to attend the school. When a student fails to attend for the next period of enrollment, the school that employed the student must be able to demonstrate that the student was eligible for employment and that the school had reason to believe the student intended to study at that school in the next period of enrollment. At a minimum, the school that employed the student must keep a written record in its files showing that the student had either registered for classes or accepted the school's offer of admittance for the next period of enrollment.

A student in an eligible program of study abroad may be employed during a period of nonattendance preceding the study abroad if he or she will be continuously enrolled in his or her domestic school while abroad and if the student's courses abroad are part of the domestic school's program. In such a case, a student may be employed in a qualified position in the United States, at the home school's branch campus in a foreign country, at a U.S. government facility abroad, or in a U.S. company abroad.

Mini-session example

Bowen University has a summer term made up of three mini-sessions. Ted enrolls in classes for the June and August mini-sessions, but does not enroll in any classes for the July mini-session. Ted has a financial need of \$500 for his attendance in two of the summer mini-sessions. Ted also plans to enroll in the following fall semester and has a remaining need of \$250 for that semester. Ted is given a \$750 FWS award in the summer (\$500 for the two summer mini-sessions and \$250 for the fall semester). Ted knows his June mini-session courses will be very demanding, and he will not have time to work. So, Ted earns \$500 during the July mini-session when he has no classes. Ted has classes again in August, but his academic workload is lighter. In August, Ted earns \$250 towards his education costs in the upcoming fall semester.

EARNINGS DURING MINI-SESSIONS

If a school combines a series of mini-sessions or modules into one term (e.g., three summer mini-sessions into one summer semester), an FWS student attending any of the mini-sessions may earn FWS wages at any time throughout that term. The school may apply those earnings towards the student's financial need for the mini-session(s) attended and/or the next period of enrollment. The school must base the student's financial need for attending the summer term on the period of time for which the student is actually enrolled in the mini-sessions.

The amount of FWS wages a student may earn at any given point in time in the term does not depend on whether or not the student is enrolled in a mini-session at that point in time. The school or student may choose how to distribute the hours worked throughout the summer term.

GARNISHMENT OF FSA FUNDS IS PROHIBITED

No FSA grant, loan, or work assistance (or property traceable to that assistance) is subject to garnishment or attachment except to satisfy a debt owed to the Department.

A student's FWS wages may be garnished only to pay any costs of attendance that the student owes the school or that will become due and payable during the period of the award. Schools must oppose any garnishment order they receive for any other type of debt.

By law, FSA funds may only be used for educational purposes. If your school is not the employer in an off-campus employment arrangement, it must have an effective procedure to notify off-campus employers that garnishment of FWS wages for any debt other than a cost of attendance is not permissible.

Garnishment/attachment prohibited

HEA 488A(d)



PAYMENT FOR FWS TRAINING AND/OR TRAVEL

A student may be paid for training for any FWS employment or for a reasonable amount of time for travel that is directly related to a community service job.

Because every job requires some type of training, whether formal or informal, ED allows FWS students to be paid wages during a training period that is conducted for a *reasonable* length of time. This applies regardless of the type of FWS job the student has. A reasonable training period is one that occurs immediately before the student begins the regular duties of the FWS employment and does not exceed approximately 20 hours. Students also may be compensated for a reasonable amount of time to perform ongoing activities (for example, preparation and evaluation time) needed to accomplish their FWS jobs.

Schools may pay students for a reasonable amount of time spent for travel that is directly related to employment in community service activities. Time spent for travel should be reported on the student's FWS time record in the same way hours actually worked are currently reported. **Schools should provide their students with a form on which students can record travel time separately from time spent working.**

Training and Travel

34 CFR 675.18(h)

INTERNAL CONTROLS IN THE FWS PROGRAM – RECONCILIATION, FISCAL AND PROGRAM RECORDS

Fiscal procedures and records

34 CFR 675.19

Your school must reconcile, at least monthly, your FWS draws recorded in G5 to the funds received in the bank account your school has designated to receive electronic transfers. You must also reconcile monthly the amount drawn down and received to the amounts disbursed to students or returned to ED, and explain all discrepancies.

In addition, you should examine your FWS program and fiscal records at the start of the year and monthly:

- Do you have a method for verifying that a student's rate of pay recorded in your payroll system matches that on which the award was calculated, and the rate assigned to the position and experience level in the school's policies and procedures?
- Do you have a system that records the maximum a student may earn in FWS wages and alerts you if a student approaches that amount?
- Do you periodically evaluate your rate of expenditures to determine, if that rate continues, whether you will expend less, exactly, or more than the amount you have budgeted for FWS expenditures?
- Are your matching funds consistently deposited at the same time you received your federal share?
- In the FWS program, your requests for funds should always be for a payroll for which data has been entered. The only time your need for funds should be greater or less than your draw is when anticipated payments from an off-campus employer are early or late. Excepting those occasions, do you often find yourself requesting additional funds or returning unused funds?
- Do you have a process in place to ensure that students are actually working the hours reported—that timesheets are accurate?
- Do you frequently audit payrolls to test whether hours recorded in the payroll system match the hours reported on student timesheets?

USE OF FWS ALLOCATED FUNDS

Private for-profit organizations (25% of allocation)

Your school may use up to 25% of its FWS allocation and reallocation for an award year to pay the wages of FWS students employed by private for-profit organizations.

Work-Colleges

An approved school may use part of its FWS allocation for the purpose of meeting the costs of the Work-Colleges Program.

Community service jobs

There are two community service expenditure requirements that a school must meet.

- A school must use at least seven percent of its FWS federal allocation for an award year to pay the federal share of wages to students employed in community service jobs for that year.
- In meeting the seven percent community service requirement, one or more of the school's FWS students must be employed as a reading tutor for children in a reading tutoring project or performing family literacy activities in a family literacy project.

A school that fails to meet one or both of these FWS community service requirements will be required to return FWS federal funds in an amount that represents the difference between the amount a school should have spent for community service and the amount it actually spent. Further, a school that is not compliant with the FWS community service requirements may be subject to a Limitation, Suspension, and Termination (L, S, & T) proceeding, through which the school could be denied future participation in the FWS Program and possibly other FSA programs and/or subject to a substantial fine.

A school may request a waiver of either of these requirements by the annual deadline. The school should include detailed information that demonstrates that the requirement would cause a hardship for students at the school. See the section later in this chapter for more information on waivers.

Agreements between schools and organizations

34 CFR 675.21(b)

Working for private for-profit organizations

34 CFR 675.23 (up to 25%)

7% Community service requirement

34 CFR 675.18(g)

Employing students as tutors

34 CFR 675.18(g)(1)(i) (3) & (4)



Definition of community service

The definition of community service has been extended to include the field of emergency preparedness and response.

HEOA 441(2)

Effective August 14, 2008.

**Remember that in meeting the community service minimum requirement, one or more of the school's FWS students must be employed as a reading tutor for children in a reading tutoring project or performing family literacy activities in a family literacy project.*

Grants for off-campus community service

The HEOA authorizes (but does not fund) grants to schools to supplement off campus and community service employment. Grant funds would be used to recruit and compensate students performing off-campus community service (including compensation for time spent in training and for travel directly related to the community service). This program is not currently funded and cannot be implemented until funding is provided by Congress.

HEOA section 446 HEA section 447(b)

Waivers of the community service and/or math and reading tutor requirements

FWS community service waiver request

Campus-Based Electronic Announcement
03-13-2012

A school may request a waiver of these requirements; the request must be in writing. The fact that it may be difficult for the school to comply with these requirements is not, in and of itself, a basis for granting a waiver.

To request a waiver for an award year, a school must send a waiver request and any supporting information or documentation to ED by the established deadline date of that award year. If a school has any questions about the community service expenditure requirements or waiver procedures, the school can contact ED's Campus-Based Call Center at **877-801-7168**.

See the chart *Community Service Waivers* later in this chapter for more information.

Reallocation effect on minimum community service expenditures

When a school receives reallocated FWS funds, the minimum amount of FWS federal funds the school must expend on community service jobs for an award year is one of the following two amounts, whichever is greater:

7% of the sum of:

- your original FWS allocation, plus
- your FWS supplemental allocation (if any), minus
- any amount of FWS federal funds you returned through the reallocation process or earlier

OR

100% of your FWS supplemental allocation (if any).

COMMUNITY SERVICE JOBS

More information

- Community service
Dear Colleague Letter CB-07-08
- Family literacy project
Dear Colleague Letter CB-98-6
Community Service 34 CFR 675.18(g)

Your school must use at least seven percent of its FWS allocation to employ students in community service jobs. Community Service jobs can be either on campus or off campus. *Nonprofit agencies* can qualify as community service employers if the work performed meets the definition of community services in the regulations. See the list of programs and activities that are recognized as appropriate work in community services in the graphic the end of this section. (Note that *private, for-profit organizations* do not qualify as employers for community service under the FWS Program.)

At least one of the FWS students your school employs to fulfill this requirement must:

- perform family literacy activities in a family literacy project that provides services to families with pre-school age children or elementary school children; or
- serve as a reading tutor for children who are pre-school age or are in elementary school.

To further encourage schools to employ FWS students in these positions and as mathematics tutors, FWS regulations authorize a 100% federal share of FWS wages.

Employing an FWS student in these positions serves the needs of the community and gives the FWS student an enriching and rewarding experience.

Schools must inform students of FWS community service opportunities available in the local community. The Program Participation Agreement also requires your school to work with local nonprofit, governmental, and community-based organizations to identify community service opportunities, including those that assist supportive services to students with disabilities. Schools should promote these opportunities to students by notifying each student individually or via general means such as campus websites or publications.

Community services eligible for FWS

Community services are defined as services that are identified by an institution of higher education through formal or informal consultation with local nonprofit, government, and community-based organizations, as designed to improve the quality of life for community residents, particularly low-income individuals, or to solve particular problems related to their needs. These services include:

- such fields as health care, child care, literacy training, education (including tutorial services), welfare, social services, transportation, housing and neighborhood improvement, public safety, crime prevention and control, recreation, rural development, community improvement, and emergency preparedness and response;
- work in service opportunities or youth corps under AmeriCorps, and service in the agencies, institutions, and activities described in the margin;
- support services for students with disabilities (including students with disabilities who are enrolled at the school¹); and

1. This is the only statutory exception to the requirement that community service be open and accessible to the community.

Civics, emergency response, and other teaching projects

In meeting the 7% community service expenditure requirement, students may be employed to perform civic education and participation activities in projects that teach civics in schools, raise awareness of government functions or resources, or increase civic participation.

To the extent practicable, a school must—

- give priority to the employment of students in projects that educate or train the public about evacuation, emergency response, and injury prevention strategies relating to natural disasters, acts of terrorism, and other emergency situations; and
- ensure that the students receive appropriate training to carry out the educational services required.

34 CFR 675.18 (g)(4)(i)

Indirect services

The Department does not intend to indicate that certain activities are more important than others or that only jobs that have direct contact with community members are acceptable. For example, an FWS student working for the Meals on Wheels Program is performing community service when conducting research on where the program is needed, when recruiting or coordinating volunteers to distribute the meals, or when preparing meals for the program, despite having no contact with the community residents. Such indirect services are very important in meeting community needs.

- activities in which an FWS student serves as a mentor for such purposes as tutoring (see *Employing FWS students as tutors* later in this chapter), supporting educational and recreational activities, and counseling, including career counseling.

To be considered employed in a community service job for FWS purposes, an FWS student does not have to provide a “direct” service. The student must provide services that are designed to improve the quality of life for community residents or to solve particular problems related to those residents’ needs. A school may use its discretion to determine what jobs provide service to the community, within the guidelines provided by the statute, regulations, and this *Handbook*. Note that there is a model need assessment at the end of this chapter that can be used with community service agencies.

There is no restriction as to whether these jobs must be on or off campus. However, a university or college is not considered a community for the purposes of the FWS community service requirements. On campus jobs can meet the definition of community services, provided the services are designed to improve the quality of life for community residents, or to solve problems related to their needs and that they meet the regulatory and statutory provisions pertaining to the applicable FWS employment limitations and conditions.

Employing FWS students as tutors

In an effort to increase the reading and math proficiency of our nation’s children, tutoring in these areas has become a federal priority. The FWS regulations authorize a 100% federal share of FWS wages earned by a student who is employed—

- as a reading tutor for preschool-age through elementary-school-age children;
- as a mathematics tutor for children in elementary school through ninth grade; *or*
- performing family literacy activities in a family literacy project that provides services to families with preschool-age children or children who are in elementary school. Many schools employ FWS students as reading or mathematics tutors. This type of employment allows students to help children develop reading or mathematics skills necessary for their education and future employment.

When employing students as reading tutors, schools must, to the maximum extent possible, give placement priority to schools that are participating in a reading reform project that: (1) is designed to train teachers how to teach reading on the basis of scientific research on reading; and (2) is funded under the Elementary and Secondary Education Act of 1965. The school must further ensure that reading tutors receive training from the employing school in the instructional practices used by the school.

Reading and math tutors

DCL CB-97-12, July 1999

DCL CB-99-12, July 1997

Community service opportunities, youth corps programs, other programs and activities

The definition of community services for FWS includes work in “service opportunities” or “youth corps,” as defined in Section 101 of the National and Community Service Act of 1990:

Service opportunity. A program or project, including a service learning program or project, that enables students or out-of-school youth to perform meaningful and constructive service in agencies, institutions, and situations where the application of human talent and dedication may help to meet human, educational, linguistic, and environmental community needs, especially those relating to poverty.

Youth corps program. A program, such as a conservation corps or youth service program, that offers full-time, productive work (to be financed through stipends) with visible community benefits in a natural resource or human service setting and that gives participants a mix of work experience, basic and life skills, education, training, and support services.

The definition of “community services” also includes service in agencies, institutions, and activities that are designated in Section 124(a) of the National and Community Service Act of 1990. These include the following conservation corps and human services corps programs, as well as programs that encompass the focus and services of both.

Conservation corps programs

Conservation corps programs that focus on:

- conservation, rehabilitation, and the improvement of wildlife habitat, rangelands, parks, and recreation areas;
- urban and rural revitalization, historical and site preservation, and reforestation of both urban and rural areas;
- fish culture, wildlife habitat maintenance and improvement, and other fishery assistance;
- road and trail maintenance and improvement;
- erosion, flood, drought, and storm damage assistance and controls;
- stream, lake, waterfront harbor, and port improvement;
- wetlands protection and pollution control;
- insect, disease, rodent, and fire prevention and control;
- the improvement of abandoned railroad beds and rights-of-way;
- energy conservation projects, renewable resource enhancement, and recovery of biomass;
- reclamation and improvement of strip-mined land;
- forestry, nursery, and cultural operations; and
- making public facilities accessible to individuals with disabilities.

Human services corps programs

Human services corps programs that include service in:

- state, local, and regional government agencies;
- nursing homes, hospices, senior centers, hospitals, local libraries, parks, recreational facilities, child and adult daycare centers, programs serving individuals with disabilities, and schools;
- law enforcement agencies and penal and probation systems;
- private nonprofit organizations that primarily focus on social service such as community action agencies;
- activities that focus on the rehabilitation or improvement of public facilities; neighborhood improvements; literacy training that benefits educationally disadvantaged individuals; weatherization of and basic repairs to low-income housing, including housing occupied by older adults; energy conservation (including solar energy techniques); removal of architectural barriers to access by individuals with disabilities to public facilities; activities that focus on drug and alcohol abuse education, prevention, and treatment; and conservation, maintenance, or restoration of natural resources on publicly held lands; and
- any other nonpartisan civic activities and services that the commission determines to be of a substantial social benefit in meeting unmet human, educational, or environmental needs (particularly needs related to poverty) in the community where volunteer service is to be performed.

See 34 CFR 675.2 Definitions; “Community Service”

Community service waivers

E-Announcement March 13, 2012
HEA Sec 443(b)(2)(B)
34 CFR 675.18(g)
HEA Sec 443(b)(2)(B)

The Department in the past has approved a limited number of waivers of the community service requirements for schools that have demonstrated that enforcing these requirements would have caused a hardship for their students. Examples of waiver requests include:

Case Study #1 - Small FWS allocation

The school had a very small FWS allocation. The supporting information submitted by the school noted that seven percent of the school's allocation only provided enough funds for a student to work for a short period of time. Therefore, the school was unable to find placement for a student in community service.

Case Study #2 - Rural area

The school was in a rural area that was located far away from the types of organizations that would normally provide community service jobs. The school provided information that showed that its students lacked the means of transportation to get to the town where the community jobs were located. In a similar waiver request in which transportation did exist, a school provided documentation that showed that the transportation costs were extremely high for the students.

Case Study #3 - Specialized program

The school offered only a single program of specialized study that required its students to participate in extensive curriculum and classroom workloads. The school provided information that demonstrated that this specialized educational program prevented the students from performing community service jobs at the time those work opportunities were available.

These examples are not the only circumstances that may result in approval of a waiver request; however, you must always submit a justification of your request.

The Department posts an annual announcement to the IFAP Website describing the electronic waiver process and giving the deadline date for that year.

A school must submit its waiver request to the Department electronically via the eCampus-Based (eCB) website at: **cbfisap.ed.gov**. For more detail, see the E-Announcement referenced at the beginning of this section.

Establishing FWS Community service jobs

In contacting potential community service agencies, schools should place a priority on jobs that will meet the human, educational, environmental, and public safety needs of low-income individuals.*

Step #1: Identify Potential Jobs and Employers

Identify jobs

- Brainstorm types of jobs that would meet the community service requirement. What jobs do your students currently hold, on campus or off campus, that meet the community service definition?
- Communicate the community service requirements to your school's student employment office.
- Identify employers.
- Which local community service organizations might be interested in employing your FWS students?
- Contact local nonprofit, government, and community-based organizations to assess their needs and determine what interest exists for employing FWS students.

Talk to colleagues

Talk to colleagues at other schools to get ideas on implementing, locating, and developing the community service jobs.

Step #2: Research Your Students' Interest in Community Service

Research your FWS students' degrees or certificate programs, interests, and skills to determine which recipients might find community service jobs appealing.

Step #3: Promote Community Service Jobs

- Devise a plan to market community services under the FWS Program to eligible student employers and the community.
- Obtain a listing of potential community service agencies.
- Ask to be a presenter at various organizations' meetings.
- Engage in networking activities.
- Hold and attend job fairs.
- Host a financial aid office "open house."
- Visit local agencies.

* There is no formal definition of "low-income individuals" for this purpose, and there is no statutory requirement that a particular number or proportion of the individuals must be low-income persons. Some examples of jobs that provide services to persons in the community who may not necessarily be low-income individuals are jobs that provide supportive services to individuals with disabilities or that prevent or control crime in the community.

What is a Family Literacy Project? How are Family Literacy Activities Defined?

Research shows that children whose parents work with them on literacy skills during early childhood have a better chance of reading well and independently. The Family Literacy concept recognizes the family as an institution for education and learning and the role of parents as their children's first teachers.

A Family Literacy program integrates four components. It provides:

- literacy or pre-literacy education to children,
- literacy training for parents or other caregivers of children in the program,
- a means of equipping parents or other caregivers with the skills needed to partner with their children in learning, and
- literacy activities between parents or other caregivers and their children.

This definition is consistent with the Even Start and Head Start definitions of Family Literacy programs.

The Department does not define "Family Literacy activities" for purposes of the community service expenditure requirement or the waiver of the institutional share requirement. The Department gives schools reasonable flexibility to determine the job description and duties for an FWS student performing family literacy activities.

Family literacy activities are not limited to just tutoring positions. For example, family literacy activities may include training tutors, performing administrative tasks such as coordinating the tutors, or working as an instructional aide who prepares the materials for the project. However, it would not be reasonable to include janitorial or building repair jobs as family literacy activities.

WORK ON CAMPUS (SCHOOL IS EMPLOYER)

A student may be employed on campus at any type of postsecondary institution, including at a proprietary school.

A school, other than a proprietary school, may employ a student to work for the school itself, including certain services for which the school may contract, such as food service, cleaning, maintenance, and security. Work for the school's contractors is acceptable as long as the contract specifies the number of students to be employed and specifies that the school selects the students and determines their pay rates.

A proprietary school also may employ a student to work for the school itself with certain restrictions (discussed under "Work for a Proprietary School").

At any type of postsecondary institution, including proprietary schools, an FWS student may be assigned to assist a professor if the student is doing work the school would normally support under its own employment program. Having a student serve as a research assistant to a professor is appropriate, as long as the work is in line with the professor's official duties and is considered work for the school itself.

WORK FOR A PROPRIETARY SCHOOL

A proprietary school may employ a student to work for the school itself but only in jobs that meet certain criteria.

If the jobs are in community service, they may be either on or off campus. Students employed by a proprietary school and performing community service do not have to furnish student services that are directly related to their education.

If the jobs are *not* in community service, they must be on campus and must provide student services that are directly related to the FWS student's training or education. To the maximum extent possible, the job must complement and reinforce the FWS student's educational program or vocational goals. The job *may not* involve soliciting potential students to enroll at the proprietary school.

In general, jobs that primarily benefit the proprietary school are not student services. For example, jobs in facility maintenance or cleaning are never student services. See the sidebar on the next page for examples of jobs that do not provide student services. Again, this list is not exhaustive. Jobs in the admissions or recruitment area of a school are not acceptable student services because such jobs are considered to involve soliciting potential students to enroll at the school.

On-campus employment

34 CFR 675.21

Employment in a foreign country

Normally, employment in a foreign country is not permissible under the law. However, a school with an additional location in a foreign country may employ students under FWS if the branch has its own facilities, administrative staff, and faculty. Students may also be employed by a U.S. government facility such as an embassy or a military base. A student may not be employed for a non-profit organization in a foreign country.

Definition of institution of higher education

The FWS regulations define institution of higher education as—

A public or private nonprofit institution of higher education, a proprietary institution of higher education, or a postsecondary vocational institution.

34 CFR 675.2(b)

Proprietary school employment

34 CFR 675.21(b)

A proprietary school also may employ a student to work for the school itself with certain restrictions (see "Work for Proprietary School" in this section).

The non-community service job must provide student services that are directly related to the FWS student's training or education. This does not mean that the FWS student must be enrolled in an academic program for that field. Instead, it means that the FWS student must be receiving work experiences that are directly applicable to the skills needed for his or her career path. For example, an FWS student enrolled in an air-conditioning repair program wants to work in the school's library. Although the student is not pursuing a career as a librarian, the student would still be able to work in the library. The job is directly related to his or her training because he or she is learning customer service and basic office functions that are applicable to work in an air-conditioning repair shop or dealership. Similarly, a job in another student service office such as financial aid, registrar, and job placement would also be considered directly related to the FWS student's training.

Student services

Student services may include:

- jobs in financial aid
- jobs in a library
- peer guidance counseling
- job placement
- assisting an instructor with curriculum-related activities (e.g., teaching assistant)
- security
- social and health services
- tutoring

Student services never include:

- facility maintenance
- cleaning
- purchasing
- public relations

34 CFR 675.2(b)

Student services are services that are offered to students. Students are persons enrolled or accepted for enrollment at the school. An FWS student who provides services only to the school's former students is not providing student services because the services are not offered to currently enrolled students. However, an FWS student who provides services to both current students and former students *is* providing student services because the services *are* offered to currently enrolled students. For example, an FWS student provides job placement assistance to current students and alumni of the school. The FWS student is considered to be providing student services because his or her services are offered to current students and alumni.

Student services do not have to be direct services or involve personal interaction with other students. Services are considered student services if the services provide a benefit either directly or indirectly to students. For example, an FWS student may work in assisting an instructor in the lab or in other work related to the instructor's official academic duties at the school. See the sidebar for an expanded list of examples of jobs that provide student services. The list is not exhaustive. The fact that a job has some operational functions does not preclude it from being an acceptable FWS job as long as it furnishes student services.

WORK OFF CAMPUS

A postsecondary school (including a proprietary school) may use FWS funds to pay a portion of the wages of a student who is employed off-campus by certain nonprofit agencies or private employers.

Work off campus for nonprofit or government agency

If a student is employed off campus by a federal, state, or local public agency or by a private nonprofit organization, providing jobs related to the student's academic or vocational goals is encouraged but not required.

A private nonprofit organization is one in which no part of the net earnings of the agency benefits any private shareholder or individual. An organization must be incorporated as nonprofit under federal or state law. A school classified as a tax-exempt organization by either the federal or state Internal Revenue Service meets this requirement. Examples of private nonprofit organizations generally include hospitals, day care centers, halfway houses, crisis centers, and summer camps.

Work must be “in the public interest”

Work performed off campus *must be in the public interest*. Work in the public interest is defined as work performed for the welfare of the nation or community rather than work performed for a particular interest or group.

Work is not “in the public interest” if it:

- primarily benefits the members of an organization that has membership limits, such as a credit union, a fraternal or religious order, or a cooperative;
- involves any partisan or nonpartisan political activity or is associated with a faction in an election for public or party office;
- is for an elected official unless the official is responsible for the **regular** administration of federal, state, or local government;
- is work as a political aide for any elected official;
- takes into account a student's political support or party affiliation in hiring him or her; or
- involves lobbying on the federal, state, or local level.

Off-Campus Community Service Program

This program supports innovative projects that recruit and compensate students for work assignments in off-campus community service jobs. Institutions of higher education participating in FWS may apply for funds to design or arrange off-campus work-study placements for enrolled undergraduate students.

Funds may only be used to make payments to students participating in work-study programs. These awards may include compensation for time spent in training and in traveling to work site(s) or training.

Employment by a federal, state, or local public agency, or a private non-profit organization

34 CFR 675.23

Work for private for-profits

34 CFR 675.23

Off-campus agreements

34 CFR 675.20(b)

Treatment of excess funds from an off-campus agreement

If a school receives more money under an employment agreement with an off-campus agency than the sum of

1. required employer costs,
2. the school's nonfederal share, and
3. any share of administrative costs the employer agreed to pay,

the school must handle the excess in one of three ways:

- use it to reduce the federal share on a dollar-for-dollar basis;
- hold it in trust for off-campus employment during the next award year; or
- refund it to the off-campus employer.

Reading tutors

34 CFR 675.18(g)(3)

Reading and math tutors

Dear Colleague Letter CB-97-12, dated July 1999

Dear Partner Letter CB-99-12, dated July 1997

Political activity, whether partisan or nonpartisan, does not qualify as work in the public interest. For example, a student is not considered to be working in the public interest if working at voting polls—even if he or she only checks off the names of those who came to vote and does not pass out flyers supporting a particular candidate. Also, a student is not considered to be working in the public interest if working to support an independent candidate. Another example of nonpartisan political activity is work for a city political debate.

Working for an elected official as a political aide also does not qualify as work in the public interest. For example, a student could not represent a member of Congress on a committee. However, a student could be assigned to the staff of a standing committee of a legislative body or could work on a special committee, as long as the student would be selected on a nonpartisan basis and the work performed would be nonpartisan.

Under certain circumstances, work for an elected official responsible for the *regular administration* of federal, state, or local government may be considered to be in the public interest. “Regular administration” means the official is directly responsible for administering a particular function. Such a person would not create, abolish, or fund any programs but would run them. Working for a sheriff would be acceptable, as would working for an elected judge (because he or she has direct responsibility for the judicial system).

As stated previously, any *political* activity would not be acceptable—raising funds for the official's reelection, for example. An FWS position that involves lobbying at the federal, state, or local level is not work in the public interest. FWS students are prohibited from working for the Department of Education due to the potential appearance of conflict of interest.

Work off campus for private for-profit companies

Schools also may enter into agreements with private for-profit companies to provide off-campus jobs for students; however, these jobs must be academically relevant, to the maximum extent practicable, to the student's program of study. (A student studying for a business administration degree could work in a bank handling customer transactions, for example.) Private for-profit organizations do not qualify as employers for community service under the FWS Program.

Off-campus agreements

If your school would like an off-campus organization to employ FWS students, your school must enter into a written agreement—a contract—with the off-campus organization. A written agreement is required with the off-campus organization even if your school is considered the employer of the FWS student. The school must make sure the off-campus organization is a reliable agency with professional direction and staff and that the work to be performed is consistent with the purpose of the FWS Program. Note that there is a model off-campus agreement at the end of this chapter. The model need not be followed exactly but serves as a guide.

The agreement should specify what share of student compensation and other costs will be paid by the off-campus organization. For-profit organizations **must** pay the nonfederal share of student earnings. Any off-campus organization **may** pay:

- the nonfederal share of student earnings;
- required employer costs, such as the employer's share of Social Security or workers' compensation; and
- the school's administrative costs not already paid from its Administrative Cost Allowance (ACA).

The agreement sets forth the FWS work conditions and establishes whether the school or the off-campus organization will be the employer for such purposes as hiring, firing, and paying the student. The employer is generally considered to be the entity that will control and direct the work of the FWS students—supervising them at the work site, regulating their hours of work, and generally ensuring that they perform their duties properly. However, the school is ultimately responsible for making sure that payment for work performed is properly documented and that each student's work is properly supervised.

The agreement should define whether the off-campus organization will assume payroll responsibility and bill the school for the federal share of the students' wages, or whether the school will pay the students and bill the off-campus organization for its contribution. The school must make up any payments the off-campus organization does not make. **It is the school's responsibility to ensure that FWS payments are properly documented, even if the off-campus organization does the payroll.** To fulfill that responsibility, the school must keep copies of time sheets and payroll vouchers and keep evidence that the students were actually paid (usually copies of the canceled checks or receipts signed by the students). Payroll records are discussed in detail later in this chapter.

The school is also responsible for ensuring that each student's work is properly supervised. School officials should periodically visit each off-campus organization with which they have an off-campus agreement to determine whether students are doing appropriate work and whether the terms of the agreement are being fulfilled.

Rules for private for-profit organizations

Private for-profit organizations may not hire FWS employees to replace regular employees. Also note that the federal share of FWS wages paid to a student working for a private for-profit organization may not exceed 50%.

Work in the public interest: examples

In deciding whether work is in the public interest, schools must consider the nature of the work as well as that of the organization. For example, a private nonprofit civic club may employ a student if the student's work is for the club's community drive to aid handicapped children. If the student's work is confined to the internal interests of the club, such as a campaign for membership, the work would benefit a particular group and would not be in the public interest. As another example, a student may work for a private nonprofit membership organization, such as a golf club or swimming pool, if the general public may use the organization's facilities on the same basis as its members. If only members may use the facilities, FWS employment is not in the public interest.



The agreement must state whether the school or off-campus organization is liable for any on-the-job injuries to the student. The employer is not automatically liable. Federal FWS funds cannot be used to pay an injured student's hospital expenses.

In determining whether to continue an off-campus agreement, many schools have found it helpful to require that students submit a formal evaluation of their work experience at the end of the assignment. The school may also use the evaluation to help off-campus agencies improve their work programs.

Staff members of the off-campus organization must become acquainted with a school's financial aid and student employment programs to better understand the school's educational objectives. The school must supply the off-campus organization with this information.

Providing the federal share or billing for the employer's share

If an off-campus agreement specifies that the off-campus organization will assume payroll responsibility and bill the school for the federal share of the students' wages, the school will be sending federal funds to the off-campus organization. The agreement with the school should include the procedures the off-campus organization must follow and the documents it must provide in order to be reimbursed for the federal portion of a student's salary.

Your school should have written policies that describe the aforementioned procedures, the documentation the off-campus organization must provide, and how the reimbursement process will be handled. Your accounting entries must completely track the payment of the federal share to the off-campus organization and must be backed by the original documents specified in your policies. Your school is liable for federal funds expended for which it does not have proper records or documentation.

If your agreement with the off-campus organization specifies that the school will pay the students and bill the off-campus organization for its share, the agreement should include the steps the school will take, the documentation the school will provide, and the time frame within which the off-campus employer will pay the school its share of the FWS compensation.

Your school should have a system for ensuring that off-campus employers are billed for their share of FWS wages in a timely manner. In addition, you should have a system for following up if bills remain unpaid after a reasonable period of time. Your accounting entries must completely track the billing and receipt of the employer's share and must be backed by any original documents required (e.g., detail of the wages paid to students and calculation of the employer's share).

Employing FWS students as tutors

What are the requirements for a “reading tutor” or “math tutor?”

The Department does not define “tutor” for the FWS Program. This gives schools flexibility in determining the job description and duties of a tutor. For example, a reading tutor could be an FWS student who reads to a group of preschoolers in a public library.

An FWS student employed as a tutor does not have to meet certain statutory (for reading tutors) or regulatory (for reading and mathematics tutors) educational standards or qualifications for the school to receive an institutional-share waiver. However, an FWS reading or math tutor must have adequate reading or math skills, as appropriate, and the Department strongly recommends that the tutors be well trained before they tutor.

The Department does not require background checks of FWS tutors. However, some state and local jurisdictions may require such checks. The requirements will vary according to the agency or organization involved.

What is a preschool-age child?

A preschool-age child is a child from infancy to the age at which his or her state provides elementary education.

What is the definition of an elementary school?

The definition of an elementary school varies from state to state. Because the Department does not wish to interfere with a state’s determination of what constitutes children who are in elementary school, we will not provide guidance on the maximum grade level for elementary school for purposes of the institutional-share waiver for tutoring.

What setting must the tutoring take place in?

Tutoring may be one-on-one or in a group. Tutoring sessions can take place in a school setting or another location, such as a public library or community center. Tutoring sessions can be held during regular school hours, after school, on weekends, or in the summer.

Can FWS students tutor children in parochial schools?

An FWS student can tutor a child in a parochial school under certain conditions:

- The parochial school must be classified as a private, nonprofit school by the Internal Revenue Service or a state taxing body;
- The work may not involve constructing, operating, or maintaining any part of a building used for religious worship or sectarian instruction; and
- The FWS tutor may not use religious material to tutor the child.

Should tutors be trained?

The Department strongly recommends that the tutors be well trained before they tutor. When an FWS student receives training from a specialist or expert for sufficient duration and intensity, he or she is more likely to be successful with the child he or she is tutoring. Tutor training should emphasize the importance of the tutor’s communication with the regular classroom teacher to maximize effectiveness. The amount and type of training will often vary, depending on the needs of the child being tutored and the subject being studied. (See Chapter 1 for information on using the administrative cost allowance to pay for the cost of training tutors.)

Can students be paid while in training?

Under limited circumstances, an FWS tutor can receive FWS wages while being trained, and these wages can qualify for a waiver of the institutional share. This training period must be only for a reasonable and limited length of time. The Department would not consider a training period of an academic term to be reasonable. The Department would consider a reasonable training period to be one that occurs before the student begins tutoring and that does not exceed approximately 20 hours. A school may not pay an FWS student to take an academic course the school developed to provide classroom training on tutoring children. An FWS student may take such a course as long as he or she is not paid for taking the course (34 CFR 675.18(h)).

Can students be paid during preparation and evaluation activities?

The preparation time and evaluation time worked by an FWS tutor qualify for a 100% federal share as long as the time spent for this purpose is reasonable. For example, the Department would consider attending evaluation and preparation meetings once a week for approximately one hour to be reasonable. The Department wants to give some flexibility because of the value of evaluation and preparation time. However, the goal is to spend funds for FWS students to interact with the children in family literacy programs, not for other activities.

Will a tutoring job always satisfy the community service requirement?

An FWS tutor job might qualify for a waiver of the institutional share (100% federal share) but not qualify as part of the 7% community service requirement. If, for example, a postsecondary school employs FWS students to tutor young children in its daycare center and the center is not open and accessible to the community, the job would qualify for the waiver, but would not qualify as part of the 7% community service requirement.

What if the FWS student is training tutors, performing related administrative tasks, or works another FWS job?

The wages of an FWS student who is training tutors or who is performing administrative tasks related to supporting other people who are actually providing the reading or mathematics tutoring do not qualify for a federal share of up to 100%; rather, an institutional share is required.

Remember that it is the FWS reading or mathematics tutor job, not the student working in the job, that qualifies for the institutional-share waiver. Thus, an FWS student who is working another FWS job in addition to the tutor job can be paid with 100% federal funds only for the time he or she is working as a tutor, not for time spent on the other job. If, for example, an FWS student spends only half of his or her time working as a reading tutor (including preparation and evaluation time) and the other half on non-tutoring tasks, the student may be paid 100% federal funds only for half the time and the other half must be paid with a maximum of 75% federal funds and a minimum of 25% nonfederal funds.

How can my school start placing FWS students as tutors?

Your school may construct its own reading tutor program or join existing community programs.

You may use the Job Location and Development (JLD) Program to locate or develop jobs for FWS students as tutors of children. However, you may not use JLD funds exclusively for this purpose because you would be in violation of the JLD statutory requirement to expand off-campus jobs for currently enrolled students who want jobs regardless of their financial need.

JOB LOCATION AND DEVELOPMENT PROGRAM

The Job Location and Development (JLD) Program is a part of the FWS Program. An institution is allowed to use part of the federal funds it receives under the FWS Program to establish or expand a JLD Program.

The JLD Program locates and develops off-campus job opportunities for students who are currently enrolled in eligible institutions of higher education and who want jobs regardless of financial need. This means that jobs may be located and developed under the JLD Program for FWS and non-FWS eligible students.

Under the JLD Program, your school must locate and develop off-campus jobs that are suitable to the scheduling and other needs of the employed student and must, to the maximum extent practicable, complement and reinforce the educational program or vocational goal of the student.

JLD jobs may be part-time or full-time, for either a for-profit or non-profit employer.

JLD Program participation

A school that participates in the FWS Program is also eligible to participate in the JLD Program. A school that has an executed Program Participation Agreement (PPA) for the FWS Program may participate in the JLD Program without any prior contact with the Department and without any revision to its PPA. Under the PPA, the school agrees to administer the JLD Program according to the appropriate statutory and regulatory provisions.

If the Department terminates or suspends a school's eligibility to participate in the FWS Program, that action also applies to the school's JLD Program.

Student eligibility

Any student employed in a job developed under the JLD Program must be currently enrolled at the school placing him or her in a job. A school may place in JLD jobs both students who do not meet FWS student eligibility criteria and those who do meet those criteria. However, using JLD funds to find jobs only for FWS students would not satisfy the program purpose of expanding off-campus jobs for students who want jobs regardless of financial need.

JLD Program

34 CFR 675 Subpart B

JLD purpose and description

34 CFR 675.31 & 34 CFR 675.32

JLD & community service

The JLD Program encourages students to participate in community service activities. Your school must inform all eligible students of the opportunity to perform community services and must develop and make available information about community service opportunities. The JLD Program uses the same definition of community services that the FWS Program employs. However, the JLD Program does not have a specific minimum community service requirement, as does the FWS Program.

Use of JLD funds

34 CFR 675.35(b)(3)

Federal and institutional shares

34 CFR 675.33(b) & (c)

Prohibition on using funds on campus

34 CFR 675.35(a)(3)(i)

Maximum federal funds for JLD Programs cite

34 CFR 675.32

Increase in JLD limits

Effective August 14, 2008, the amount of FWS funds institutions of higher education may use for Job Location and Development programs increases to not more than 10% or \$75,000 of their Federal Work-Study allocations, up from not more than 10% or \$50,000.

HEOA section 445

HEA section 445(a)(1)

Effective date: August 14, 2008

Use of FWS allocation for JLD Program

When establishing or expanding a program to locate and develop off-campus jobs, including community service jobs, a school may use up to the lesser of the following two amounts:

- 10% of its FWS allocation and reallocation; or
- \$75,000.

Use of JLD Program funds

Your school may use federal JLD funds to pay for the cost of establishing and administering the JLD Program. You may not use JLD funds to:

- pay students whose jobs were located and developed through the JLD Program;
- locate and develop jobs at your school or other eligible schools;
- place students upon graduation; and
- displace employees or impair existing service contracts.

A school is expected to generate total student wages exceeding the total amount of the federal funds spent under JLD.

Federal share limitation

You may use federal FWS funds to pay up to 80% of the allowable costs (listed under *Allowable program costs*). Your school must provide the remaining 20% of allowable costs either in cash or in services. This requirement, unlike the institutional-share requirement for FWS earnings, cannot be waived.

Your school's 20% share may be either (1) 20% of each allowable cost, or (2) varying percentages of allowable costs, as long as its total expenditures of institutional funds and/or provision of services equals at least 20% of the total allowable costs for the JLD Program.

You must maintain records that indicate the amount and sources of your school's matching share. Procedures and records requirements for JLD are the same as those for all Campus-Based programs.

Allowable program costs

Allowable costs of carrying out the JLD Program include:

- staff salaries (and fringe benefits, if they are the same as those paid to other institutional employees in comparable positions and are not paid to a student employed through the FWS Program);
- travel expenses related to JLD activities;
- printing and mailing costs for brochures about the JLD Program;
- JLD telephone charges, including installation of a separate line for off-campus employers;
- JLD costs for supplies, equipment, and furniture;
- newspaper or other types of advertising that inform potential employers of the services JLD offers; and
- JLD workshops for students and employers.

Costs that are not allowable are costs related to purchasing, constructing, or altering the facilities that house a JLD project. Indirect administrative costs also are not allowable. One example of an indirect administrative cost is a portion of the salary of someone who is not directly involved in the program, such as the JLD director's supervisor. Other examples of indirect administrative costs are lighting, heating, or custodial costs incurred as part of the normal operations of the facility in which the JLD program is administered, such as the financial aid or placement offices.

Students as staff in the JLD Program office

The prohibition against using JLD funds to locate and develop jobs at any school *does not* mean that your school is also prohibited from employing FWS and non-FWS students as staff in the JLD Program office. Your school may employ FWS and non-FWS students as staff in the JLD Program office as long as you do not use JLD funds to locate and develop these jobs. For example, your school could use the FWS Program to employ an FWS student as a staff member in the JLD Program office.

If your school places an FWS student as staff in the JLD Program office, there are some important points to note. The statute and the FWS regulations prohibit the use of any funds allocated under the FWS Program from being used to pay the institutional share of FWS compensation to its students. Hence, your school may not use federal JLD funds to pay the institutional share of FWS wages earned by an FWS student working as staff in the JLD Program office. Instead, you must use your school's funds to pay the institutional share of these wages.

Allowable costs cite

34 CFR 675.33(a)

JLD reporting on the FISAP

If your school participates in the JLD Program during an award year, you must provide information about its JLD activities on the *Fiscal Operations Report and Application to Participate* (FISAP). You must report the total JLD expenditures, federal expenditures for JLD, institutional expenditures for JLD, number of students for whom jobs were located or developed, and total earnings for those students.

Your school **may not** include student staff jobs in the JLD office on the FISAP in the JLD section for reporting the count of students and the earnings of students for whom jobs were located or developed through the JLD Program. However, if your school used its own funds to pay the institutional share of wages for student staff jobs, you may count those funds in meeting the minimum 20% institutional-share requirement for the JLD Program.

Multi-institutional JLD Programs

Multi-institutional programs

34 CFR 675.34

Your school may enter a written agreement with other eligible schools for those schools to establish and operate a JLD Program for its students. The agreement must designate the administrator of the program and must specify the terms, conditions, and performance standards of the program. Each school that is part of the agreement retains responsibility for properly disbursing and accounting for the federal funds it contributes under the agreement.

For example, each school must show that its own students have earned wages that exceed the amount of federal funds the school contributed to locate and develop those jobs. This fiscal information must be reported on each school's FISAP.

If your school uses federal funds to contract with another school, suitable performance standards must be part of that contract. Performance standards should reflect each school's philosophy, policies, and goals for the JLD Program. You may not develop performance standards, conditions, or terms that are inconsistent with the statute or regulations. In all cases, the performance standards should be clearly understandable, because they will be included in the formal written agreement that each party must observe as part of its responsibility within the particular arrangement.

Comprehensive Work Colleges Program

The Higher Education Amendments of 1992 authorized the Work-Colleges Program.

The Work-Colleges Program recognizes, encourages, and promotes the use of comprehensive work-learning-service programs as a valuable educational approach when used as an integral part of the school's educational program and as a part of a financial plan that decreases reliance on grants and loans. The program also encourages students to participate in community service activities.

WORK-COLLEGES PROGRAM

Schools that satisfy the definition of "work-college" may apply to the Department to participate in the program. A work-college may transfer funds from its FWS and/or Perkins Loan allocations to fund its Work-Colleges Program.

The term "work-college" is defined as an eligible school that:

- has been a public or private nonprofit, four-year, degree-granting institution with a commitment to community service;
- has operated a *comprehensive work-learning-service program* (see sidebar for definition) for at least two years;
- requires resident students, including at least one-half of all students who are enrolled on a full-time basis, to participate in a comprehensive work-learning-service program for at least five hours each week, or at least 80 hours during each period of enrollment (except summer school), unless the student is engaged in an school-organized or approved study abroad or externship program; and
- provides students participating in the comprehensive work-learning-service program with the opportunity to contribute to their education and to the welfare of the community as a whole.

Work Colleges Program

34 CFR 675 Subpart C

Purpose

34 CFR 675.43

Definition

34 CFR 675.41

Application to participate in the Work-Colleges Program

E-Announcement 02-01-2012

Additional citations

The Higher Education Opportunity Act of 2008 introduced the term "work-learning-service" and revised the definition of "Work-College."

HEOA section 447

HEA section 448

A *Comprehensive student work-learning-service program* is a student work/service program that:

- is an integral and stated part of the institution's educational philosophy and program;
- requires participation of all resident students for enrollment and graduation;
- includes learning objectives, evaluation, and a record of work performance as part of the student's college record;
- provides programmatic leadership by college personnel at levels comparable to traditional academic programs;
- recognizes the educational role of work-learning-service supervisors; and
- includes consequences for nonperformance or failure in the work-learning-service program similar to the consequences for failure in the regular academic program.

Comprehensive student work-learning-service program

42 U.S.C. 2756b [HEA Section 448]
34 CFR 675.41(b)

Allowable costs

Allocated program funds may be used to:

- support the educational costs of students through self-help provided under the work-learning-service program within the limits of their demonstrated financial need;
- promote the work-learning-service experience as a tool of education and community service;
- carry out FWS and JLD program activities;
- administer, develop, and assess comprehensive work-learning-service programs;
- coordinate and carry out joint projects and activities to promote learning through work-service; and
- conduct a comprehensive longitudinal study of academic progress and academic and career outcomes.

Allowable costs

34 CFR 675.45

Unallowable costs

34 CFR 675.46

Multi-institutional programs

34 CFR 675.47

Crediting FWS funds to student's account and paying credit balance

675.16(b) Crediting a student's account at the institution.

(1) If the institution obtains the student's authorization described in paragraph (d) of this section, the institution may use the FWS funds to credit a student's account at the institution to satisfy—

- (i) Current year charges for—
 - (A) Tuition and fees;
 - (B) Board, if the student contracts with the institution for board;
 - (C) Room, if the student contracts with the institution for room; and
 - (D) Other educationally related charges incurred by the student at the institution; and
- (ii) Prior award year charges with the restriction provided in paragraph (b)(2) of this section for a total of not more than \$200 for—
 - (A) Tuition and fees, room, or board; and
 - (B) Other institutionally related charges incurred by the student at the institution.

(2) If the institution is using FWS funds in combination with other Title IV, HEA program funds to credit a student's account at the institution to satisfy prior award year charges, a single \$200 total prior award year charge limit applies to the use of all the Title IV, HEA program funds for that purpose.

(c) Credit balances.

Whenever an institution disburses FWS funds by crediting a student's account and the result is a credit balance, the institution must pay the credit balance directly to the student as soon as possible, but no later than 14 days after the credit balance occurred on the account.

(d) Student authorizations.

(1) Except for the noncash contributions allowed under paragraph (e)(2) and (3) of this section [see previous page], if an institution obtains written authorization from a student, the institution may—

- (i) Use the student's FWS compensation to pay for charges described in paragraph (b) of this section that are included in that authorization; and
- (ii) Except if prohibited by the Secretary under the reimbursement or cash monitoring payment method, hold on behalf of the student any FWS compensation that would otherwise be paid directly to the student under paragraph (c) of this section.

(2) In obtaining the student's authorization to perform an activity described in paragraph (d)(1) of this section, an institution—

- (i) May not require or coerce the student to provide that authorization;
- (ii) Must allow the student to cancel or modify that authorization at any time; and
- (iii) Must clearly explain how it will carry out that activity.

(3) A student may authorize an institution to carry out the activities described in paragraph (d)(1) of this section for the period during which the student is enrolled at the institution.

(4)

- (i) If a student modifies an authorization, the modification takes effect on the date the institution receives the modification notice.
- (ii) If a student cancels an authorization to use his or her FWS compensation to pay for authorized charges under paragraph (b) of this section, the institution may use those funds to pay only those authorized charges incurred by the student before the institution received the notice.
- (iii) If a student cancels an authorization to hold his or her FWS compensation under paragraph (d)(1)(ii) of this section, the institution must pay those funds directly to the student as soon as possible, but no later than 14 days after the institution receives that notice.

(5) If an institution holds excess FWS compensation under paragraph (d)(1)(ii) of this section, the institution must—

- (i) Identify the amount of funds the institution holds for each student in a subsidiary ledger account designed for that purpose;
- (ii) Maintain, at all times, cash in its bank account in an amount at least equal to the amount of FWS compensation the institution holds for the student; and
- (iii) Notwithstanding any authorization obtained by the institution under this paragraph, pay any remaining balances by the end of the institution's final FWS payroll period for an award year.

Model Off-Campus Agreement

The paragraphs below are suggested as models for the development of a written agreement between a school and a federal, state, or local public agency or a private nonprofit organization that employs students who are attending that school and who are participating in the Federal Work-Study (FWS) Program. Institutions and agencies or organizations may devise additional or substitute paragraphs as long as they are not inconsistent with the statute or regulations.

This agreement is entered into between _____, hereinafter known as the “Institution,” and _____, hereinafter known as the “Organization,” a (federal, state, or local public agency), (private nonprofit organization), (strike one), for the purpose of providing work to students eligible for the Federal Work-Study [FWS] Program.

Schedules to be attached to this agreement from time to time must be signed by an authorized official of the institution and the organization and must set forth—

1. brief descriptions of the work to be performed by students under this agreement;
2. the total number of students to be employed;
3. the hourly rates of pay; and
4. the average number of hours per week each student will work.

These schedules will also state the total length of time the project is expected to run, the total percent, if any, of student compensation that the organization will pay to the institution, and the total percent, if any, of the cost of employer’s payroll contribution to be borne by the organization. The institution will inform the organization of the maximum number of hours per week a student may work.

Students will be made available to the organization by the institution to perform specific work assignments. Students may be removed from work on a particular assignment or from the organization by the institution, either on its own initiative or at the request of the organization. The organization agrees that no student will be denied work or subjected to different treatment under this agreement on the grounds of race, color, national origin, or sex. It further agrees that it will comply with the provisions of the Civil Rights Act of 1964 (Pub. L. 88-352; 78 Stat. 252) and Title IX of the Education Amendments of 1972 (Pub. L. 92-318) and the Regulations of the Department of Education that implement those acts. Two examples of off-campus agreements are included to provide additional guidance.

Where appropriate, any of the following three paragraphs or other provisions may be included.

1. Transportation for students to and from their work assignments will be provided by the organization at its own expense and in a manner acceptable to the institution.
2. Transportation for students to and from their work assignments will be provided by the institution at its own expense.
3. Transportation for students to and from their work assignments will not be provided by either the institution or the organization.

Sample language to specify employer

Whether the institution or the organization will be considered the employer of the students covered under the agreement depends upon the specific arrangement as to the type of supervision exercised by the organization. It is advisable to include some provision to indicate the intent of the parties as to who is considered the employer. As appropriate, one of the two paragraphs below may be included.

Although the following paragraphs attempt to fix the identity of the employer, they will not necessarily be determinative if the actual facts indicate otherwise. Additional wording that specifies the employer's responsibility in case of injury on the job may also be advisable, since federal funds are not available to pay for hospital expenses or claims in case of injury on the job. In this connection, it may be of interest that one or more insurance firms in at least one state have, in the past, been willing to write a workers' compensation insurance policy which covers a student's injury on the job, regardless of whether it is the institution or the organization that is ultimately determined to have been the student's employer when the student was injured.

1. The institution is considered the employer for purposes of this agreement. It has the ultimate right to control and direct the services of the students for the organization. It also has the responsibility to determine whether the students meet the eligibility requirements for employment under the Federal Work-Study Program, to assign students to work for the organization, and to determine that the students do, in fact, perform their work. The organization's right is limited to direction of the details and means by which the result is to be accomplished.
2. The organization is considered the employer for purposes of this agreement. It has the right to control and direct the services of the students, not only as to the result to be accomplished, but also as to the means by which the result is to be accomplished. The institution is limited to determining whether the students meet the eligibility requirements for employment under the Federal Work-Study Program, to assigning students to work for the organization, and to determining that the students do perform their work.

Sample language to specify responsibility for payroll disbursements and payment of employers' payroll contributions

Compensation of students for work performed on a project under this agreement will be disbursed—and all payments due as an employer's contribution under state or local workers' compensation laws, under federal or state Social Security laws, or under other applicable laws, will be made—by the (organization) (institution) (strike one).

If appropriate, any of the following paragraphs may be included

1. At times agreed upon in writing, the organization will pay to the institution an amount calculated to cover the organization's share of the compensation of students employed under this agreement.
2. In addition to the payment specified in paragraph (1) above, at times agreed upon in writing, the organization will pay, by way of reimbursement to the institution, or in advance, an amount equal to any and all payments required to be made by the institution under state or local workers' compensation laws, or under federal or state Social Security laws, or under any other applicable laws, on account of students participating in projects under this agreement.
3. At times agreed upon in writing, the institution will pay to the organization an amount calculated to cover the federal share of the compensation of students employed under this agreement and paid by the organization. Under this arrangement, the organization will furnish to the institution for each payroll period the following records for review and retention:
 - a) Time reports indicating the total hours worked each week in clock time sequence and containing the supervisor's certification as to the accuracy of the hours reported;
 - b) A payroll form identifying the period of work, the name of each student, each student's hourly wage rate, the number of hours each student worked, each student's gross pay, all deductions and net earnings, and the total federal share applicable to each payroll;* and
 - c) Documentary evidence that students received payment for their work, such as photographic copies of canceled checks.

* These forms, when accepted, must be countersigned by the institution as to hours worked and the accuracy of the total federal share to be reimbursed to the organization or agency.

Model Need Assessment for FWS Community Service Program

Agency Name: _____

Date: _____

Contact Name: _____

Phone: _____

Address: _____

1. _____ Non-Profit _____ For Profit

2. Agency Mission Statement and Description of Clients Served:

3. Agency Funding Sources (check all that apply):

_____ Federal

_____ State

_____ County/City

_____ United Way

_____ Other (explain)

4. Agency's Fiscal Year: _____ to _____

5. Agency's Staffing (number of positions):

_____ Full-time paid staff

_____ Part-time paid staff

_____ Student employees

_____ Volunteers

6. How many student jobs may be available at your agency during:

Summer 20xx _____

20xx-20xx Academic Year _____

Summer 20xx _____

7. For each student job expected to be available as indicated in #6, provide the following information, attaching a separate sheet for each position.

Job Title _____

Rate or Range of Pay per Hour _____

Begin and End Dates _____ to _____

Work Schedule-Days and Hours _____

Total Hours/Week _____

Description of Duties _____

Qualifications and Experience (indicate preferred or required) _____

8. Has your agency hired students through the Federal Work-Study Program in the past?

_____ YES _____ NO

If YES:

Number of students: _____

Dates employed: _____

Average length employed: _____

9. Additional Comments:

Participating and Making Loans in the Perkins Loan Program

CHAPTER 3

The Federal Perkins Loan Program includes Federal Perkins Loans, National Direct Student Loans (NDSLs), and National Defense Student Loans (Defense Loans). Perkins Loans are low-interest, long-term loans made through school financial aid offices to help needy undergraduate and graduate students pay for postsecondary education. For complete Perkins Loan disbursement rules, see Volume 3.

THE FEDERAL PERKINS LOAN PROGRAM

The Federal Perkins Loan (Perkins) Program includes Federal Perkins Loans, National Direct Student Loans (NDSLs), and National Defense Student Loans (Defense Loans). No new Defense Loans were made after July 1, 1972, but a few are still in repayment. Federal Perkins Loans and NDSLs are low-interest, long-term loans made through school financial aid offices to help needy undergraduate and graduate students pay for postsecondary education.

Before a student may be given a Federal Perkins Loan, your school's business/bursar's office and Financial Aid Office must coordinate to ensure that the student in question is eligible by both the general student eligibility and Federal Perkins Loan eligibility regulations, has financial need, has attended entrance counseling and has signed a Perkins Master Promissory Note (MPN). (See Volume 3 for information about selecting students for Perkins Loans.)

Perkins federal share

The amount of new Federal Perkins Loan Program funds provided to a school for an award year by the federal government is called the *Federal Capital Contribution (FCC)*. The FCC funds to be used for the Federal Perkins Loan Program must be deposited into the school's Perkins revolving fund. The FCC deposited into the school's Perkins revolving fund must not exceed 75% of the combined FCC and required non-federal share.

Unlike the FWS and FSEOG programs, the Department is not able to authorize a federal share of 100% for the FCC deposited into the school's Perkins revolving fund. It should also be noted that when a school transfers new FCC to either the FWS or FSEOG programs, the FCC is not deposited into its Perkins revolving fund.

The Federal Perkins Loan Program

34 CFR Part 674

PPA

34 CFR 674.8

ICC

34 CFR 674.8(a)(2)(i) & (ii) & (a)(3)

Student eligibility

34 CFR 674.9

Selecting students

34 CFR 674.10

Federal capital contribution

34 CFR 674.2

TIP

Congress has not authorized or appropriated a Federal Capital Contribution for 2012-2013.

Perkins non-federal share

In the Federal Perkins Loan Program, every student's loan will be comprised of federal dollars and institutional funds (the *Institutional Capital Contribution (ICC)*).

A school must provide a share of each student's Federal Perkins loan from the school's funds (the ICC). The ICC must equal or exceed:

- one-third (33 1/3%) of the FCC, *or*
- one-quarter (25%) of the combined FCC and ICC.

For example, if a school received an FCC of \$30,000, it would be required to provide an ICC of at least \$10,000, for a combined amount of \$40,000. The FCC (\$30,000) *divided by .3333 equals \$40,000 minus \$30,000 equals \$10,000*. The Department is not able to grant a waiver of the ICC.

The ICC must be comprised exclusively of institutional funds, and you must deposit the ICC prior to or at the same time as you deposit the FCC. The ICC must be deposited every year regardless of any overmatch a school may have made during the previous award year. The school makes its contribution through a short-term loan to the fund and reports that loan on its FISAP.

When you transfer new FCC to either the FWS or FSEOG programs, the FCC is not deposited into your Perkins revolving fund, and you do not have to provide an ICC share. Instead, you must provide a non-federal share for those FCC funds at the level required by the program to which it was transferred and spent in by your school.

Level of expenditure (LOE)

The *level of expenditure (LOE)* is the maximum dollar amount that ED allows a school to expend from the school's Federal Perkins loan fund in a given award year. The LOE includes **all authorized expenditures** for the program, such as all loans to students, administrative cost allowance, and collection costs. The LOE equals the total of FCC, ICC, funds available from the school's projected collection of Federal Perkins Loans in repayment, estimated Federal Perkins Loan cancellation reimbursements, and anticipated cash on hand (FCC + ICC + collections + cancellation reimbursements + cash on hand = LOE).

To request an increase in their LOE, schools make the request through the School Participation Team (SPT) serving their state. Schools should request FCC only when its cash on hand has been depleted. The telephone numbers for the school participation teams and divisions are found at the end of this volume.

Excess cash

The legislative requirement included in Section 466 of the Higher Education Act of 1965, as amended (HEA) requires the return of excess Federal Perkins Loan funds when available resources exceed a school's needs in the foreseeable future. A school has excess liquid capital in its Federal Perkins Loan fund if the funds available (cash on hand, plus projected collections, plus Federal Capital Contribution [FCC] and Institutional Capital Contribution [ICC], and cancellation repayments) for the current award year significantly exceed the award year's total expenditures from the fund. Regardless of whether a school has received FCC or not, if a school has more cash than it plans to spend, the school should disburse any excess cash during the award year or return it to the Department.

Federal Perkins cash on hand recorded on the school's general ledger annually as of June 30 and October 31 must be reported on the Fiscal Operations Report. Note that the overall cash on hand reported must include payments to the fund by the school for any loans the school has purchased.

MAKING A PERKINS LOAN

A Perkins Loan (or NDSL) is made when the borrower has signed the Perkins Master Promissory Note (MPN) and the school makes the first disbursement of loan funds under that promissory note for that award year. The student is required to sign the MPN only once. Additional Perkins Loans may be disbursed to a student for up to 10 years after the date the MPN is signed. Although the borrower is only required to sign the MPN once, a school may choose to require a borrower to sign a new MPN for each award year. A student may also make a written request to sign a separate MPN for each award year.

After a student files a FAFSA and the Department determines an official Expected Family Contribution (EFC) for the student, the school must award financial aid based on the student's loan eligibility and the maximum amounts for each FSA program. For a complete explanation of awarding Perkins funds, see *Volume 3, Chapter 7: Awarding Campus-Based Aid*. As with the other Campus-Based programs, funds from the Perkins Loan Program must be "packaged" with other expected financial assistance to ensure that the student's total aid does not exceed his or her cost of attendance. The packaging process is discussed in *Volume 3*.

Perkins Loan limits

Annual maximum loan:

Undergraduate \$5,500

Graduate \$8,000

Aggregate maximum loan:

Undergraduate:
Grade levels 1 & 2
\$11,000

Grade levels 3 & 4
\$27,500

Graduate \$60,000



Perkins LOE required

To make loans, a school must have a Perkins Loan Level of Expenditure (LOE) from ED for that award year. The LOE is the authority from ED for the school to participate and spend monies from the Perkins Loan Fund for that award year, including making new loans to students. The official FWS allocation letter and the Perkins Loan LOE is the school's authority to exercise the FWS to Perkins Loan transfer option.

Making a loan

The *making of a loan* occurs when the school makes the first disbursement of a loan to a student for an award year.
34 CFR 674.2

Loan maximums

34 CFR 674.12

Making and disbursing loans

34 CFR 674.16

Use of funds

34 CFR 674.18

Compliance with equal opportunity credit requirements

34 CFR 674.20

NDSL loans

If a Perkins borrower has an outstanding balance on a National Defense Student Loan or National Direct Student Loan when the new loan is obtained, the new loan is treated under the same terms as the earlier loan.
→ Loans made before July 1, 1972, were National Defense Student Loans.
→ Loans made from July 1, 1972 through June 30, 1987, were National Direct Student Loans.

FTC “Red Flags Rule” on Identity Theft and Perkins Loans

E-Announcement June 14, 2010

The Federal Trade Commission (FTC), in concert with other federal agencies, has issued regulations that require financial institutions and creditors to develop and implement a written identity theft prevention program to detect, prevent, and respond to patterns, practices, or specific activities that may indicate identity theft and are known as “red flags.”

The “Red Flags Rule” applies to institutions participating in the Federal Perkins Loan Program and may apply to other credit programs administered by an institution. Although the “Red Flags Rule” is not issued by the Department of Education, the Department has issued a series of announcements to make schools in the Perkins Loan Program aware of the requirement, and ED encourages Perkins schools to review these regulations with their attorneys to ensure compliance.

The rule became effective on January 1, 2008, with full compliance for all covered entities originally required by November 1, 2008. The FTC has issued several Enforcement Policies delaying enforcement of the Rule. The most recent Enforcement Policy delayed enforcement of the “Red Flags Rule” through December 31, 2010. As of January 1, 2011, the FTC is enforcing the rule.

The FTC noted in a press release (May 28, 2010) that it has published a compliance guide for business, and created a template that enables low-risk entities to create an identity theft program with an easy-to-use online form (www.ftc.gov/bcp/edu/microsites/redflagsrule/get-started.shtm).

The regulations covering the “Red Flags Rule” were published in the Federal Register on November 9, 2007, by the FTC. The Federal bank regulatory agencies and the National Credit Union Administration jointly issued regulations (72 FR 63718).

Further information about the “Red Flags Rule” and the actual text of the regulations is available on the FTC website at:

<http://www.ftc.gov/opa/2007/10/redflag.shtm>

PERKINS PROMISSORY NOTE

The promissory note is the legally binding document that is evidence of a borrower's indebtedness to a school. The note includes information about the loan's interest rate, repayment terms, and minimum rates of repayment; deferment, forbearance, and cancellation provisions; credit bureau reporting; late charges, attorney fees, collections costs, and consequences of default.

You must ensure that each Perkins Loan is supported by a legally enforceable promissory note. If the school does not have a valid note or other written evidence that would be upheld in a court of law, the school has no recourse against a borrower who defaults. Two examples of invalid notes are notes that have been changed after they were signed and notes without proper signatures or dates. In such cases, the school would have to repay to its Perkins Loan Fund any amounts loaned, whether recovered from the borrower or not, as well as any Administrative Cost Allowance (ACA) claimed on those amounts.

If an error is discovered in a promissory note, the school should obtain legal advice about what action it should take. The appropriate school official and the student should sign by or initial all approved changes in the note.

When the borrower has fully repaid the Perkins Loan, your school must either notify the borrower in writing, or mark the original note "paid in full" and return it to the borrower. **Your school must keep a copy of the note for at least three years after the date the loan was paid in full.**

It is also essential to report to the National Student Loan Data System when the loan has been repaid.

Single vs. multi-year use of the MPN

The **Master Promissory Note (MPN)** for the Perkins Loan Program is a promissory note under which the borrower may receive loans for a single award year or multiple award years.

Because the MPN can be used to award Federal Perkins Loans on a multi-year basis, there is no box for loan amount or loan period on the note. If you choose to use the MPN as a single award year promissory note, the borrower must sign an MPN for each award year. The borrower must sign a new Federal Perkins MPN for each subsequent award year. When used as a multi-year note, the borrower signs the MPN only once, before the first disbursement of the borrower's first Federal Perkins Loan.

MPN Promissory Note

34 CFR 674.31

Retention of records

34 CFR 674.19(d) & (e)

School must use ED-approved MPN

A school must use the Federal Perkins MPN that the Department has approved for all Perkins loans.

The most recent version of the Perkins MPN was circulated with Dear Colleague Letter CB-09-05 (September 28, 2009), with minor corrections made based on CB-09-06.

On or after December 31, 2009, only the revised Perkins MPN with the August 31, 2012, expiration date may be distributed.

For more information on the transition to the new note prior to December 31, 2009, see CB-09-05, CB-09-06, and CB-09-07.

TIP

New Perkins MPN in Process

As this publication was being prepared, a new Perkins MPN was being reviewed. Participating schools should watch for an upcoming Electronic Announcement on this topic.

Limits on multi-year use of the MPN

You can no longer make a loan under an MPN:

- more than 10 years from the date the borrower signed the MPN or the date you received the MPN (schools can still disburse a remaining portion of a loan after this date);
- more than 12 months after the date the borrower signed the MPN, if you make no disbursement under that MPN;
- after the date you are notified by the borrower to stop using the MPN.

Implementing an electronic Perkins MPN

A school that offers an electronic Perkins MPN must ensure that the text of their electronic version is updated to exactly match the text of the revised Perkins MPN with the August 31, 2012, expiration date. No changes may be made to the text of the MPN except as provided in Dear Colleague Letter CB-09-05 under "Document formats for the revised Perkins MPN and Addendum."

Schools using an electronic Perkins MPN should review the Department's standards for electronic signatures as provided in Dear Partner Letter GEN-01-06 before implementing an electronic Perkins MPN. Schools wishing to obtain an electronic version (HTML) of the revised Perkins MPN should send a request to: Neil.Sattler@ed.gov.

DCL CB-09-07

Prior guidance

The Perkins closed-end and open-end promissory notes expired on October 31, 2004. You must use the MPN for all loans made on or after November 1, 2004. Implementation guidance for the Perkins closed-end and open-end promissory notes was provided in Volume 5, Chapter 3, of the 2003–2004 FSA Handbook.

The Department issued instructions in Dear Colleague Letter CB-06-10 for using the revised Perkins Master Promissory Note.

Perkins paper MPN mailing address

Department of Education
P.O. Box 5692
Montgomery, AL 36104

You may make Perkins Loans under an MPN for up to 10 years from the date the borrower signed the MPN. However, the first disbursement must be made within 12 months of the date the borrower signed the MPN. If no disbursements are made within that 12-month period, the borrower must sign another MPN before receiving a Perkins Loan. In addition, no further loans may be made under an MPN after the school receives written notice from the borrower requesting that the MPN no longer be used as the basis for additional loans.

Retaining the electronic MPN

If the student completes an electronic MPN (eMPN), your school must maintain the original electronic promissory note, plus a certification and other supporting information regarding the creation and maintenance of any electronically-signed Perkins Loan promissory note or Master Promissory Note (MPN) and provide this certification to the Department, upon request, should it be needed to enforce an assigned loan. Schools and lenders are required to maintain the electronic promissory note and supporting documentation for at least three years after all loan obligations evidenced by the note are satisfied.

Using ED-approved MPN and customizing the MPN

You must use the ED-approved MPN. You may not make changes to, deletions from, or additions to the prescribed language on the MPN. However, you may delete bracketed text and you may print information (name, address, and telephone number) identifying your school in Section B, Item 6. You may also use appropriate coding (for example, bar coding to reflect the source, type, or other identification system for filing or processing) in this area.

You may print bar coding or coding identifiers, such as student ID number or loan number, in the side or bottom margins to meet the requirements of your school's processing systems. You may not print these coding identifiers on the promissory note in a way that would alter the general layout of the note. You may also print in the lower margin of the note a reference to the type, for example: original, student copy, file copy.

You may adjust the height of the boxes in Sections A and B to meet the requirements of individual processing systems, as long as the change doesn't alter the general format of the form, result in reduced point size, move text from one page to another, or otherwise change the general presentation of the form.

You must print the original and borrower copies of the promissory notes with black ink on white paper. You may not change the typeface, point size, and general presentation of the form from the documents approved by the Department. However, you may print your school's identifying information located in Section B, Item 6 in another color to make your school's name and address more pronounced. It is preferable to print the MPN on two sheets of paper, front and back. However, you may print the MPN on four single-sided pages as well.

Master Promissory Note — Questions and Answers

Loan amount and payment period

Q. Why are there no boxes for the loan amount and loan period on the MPN?

A. The borrower only signs the MPN once, prior to disbursement of the borrower's first loan. Since the MPN can be used as either an annual or multi-year promissory note, it does not contain specific reference to the dollar amount of the loan to be disbursed, the disbursement dates, or the enrollment or award period covered by the loan.

Q. If a school chooses to use the MPN on an annual basis, can the school put boxes on the MPN for the award amount and the loan period?

A. No. The MPN is a federal form approved by the Office of Management and Budget (OMB). Schools may not add data elements to an OMB-approved form. Schools may only make minimal modifications to the MPN, as described in Dear Colleague Letter CB-09-05 and elsewhere in this chapter.

Record retention

Q. Should a school retain a record of the date and amount of each disbursement in the borrower's file to document that the borrower received the loan?

A. Yes. Since this information is not shown on the MPN, the school should maintain documentation of the loan amount, award period, and disbursement dates as part of the borrower's records. Disbursement records or student account records showing a Perkins Loan credit would serve this purpose.

Q. Are third party servicers' records sufficient to satisfy a school's need to retain supporting records showing loan amount, award period, and disbursement dates?

A. Unless the servicer is performing loan origination and disbursement functions for the school, only school records definitively show that the borrower was enrolled, the borrower's account was credited from Perkins loan funds, and the date and amount of disbursements. With certain borrower challenges, third party servicer records may not be sufficient.

Standards for electronic signatures: Highlights for Perkins eMPNs

Before implementing the eMPN, your school should review the *Standards for Electronic Signatures in Electronic Loan Transactions* published in Dear Colleague Letter GEN-01-06.

The standards are voluntary; however, adherence to the standards will provide your school some protection should a court find a loan unenforceable due to the processing of an electronic signature or related records.

Why apply these standards?

If your school's system for processing Perkins eMPNs adheres to the standards and a court finds the loan legally unenforceable based solely on the processing of the electronic signature or related records, the Department will not consider your school liable for the loan and will not require your school to reimburse its Perkins Loan Fund.

If your school's system for processing Perkins eMPNs does not adhere to the standards and a court finds the loan legally unenforceable based solely on the processing of the electronic signature or related records, the Department has the option to require your school to reimburse its Perkins Loan Fund.

Verify the borrower's identity. Verify the borrower's electronic signature.

Collect at least the following identifying information: name, Social Security number, driver's license number, and date of birth. Verify the borrower's identity by authenticating this data with an independent source such as a national commercial credit bureau, a commercial data service, a state motor vehicle agency, or a government database.

The electronic signature may be a PIN, a password, another unique credential, a biometric value unique to the borrower, such as a fingerprint or retinal pattern, or a signature image. A typed name must be paired with a pin, password, or biometric to constitute an electronic signature.

Ensure that the electronic signature is secure.

Get the borrower's consent. Make sure the borrower understands.

Obtain consent from the borrower to use an electronic record. It must be clear that the borrower has consented to use a Perkins eMPNs in place of a paper MPN. Require the borrower to confirm that he or she has the necessary hardware and software to view, print, download, or otherwise complete the electronic signature process. Keep a record showing that the borrower gave this consent prior to electronically signing the Perkins eMPNs.

Ensure that the borrower understands he or she is signing a promissory note. The borrower must click through all terms and conditions of the Perkins eMPNs and acknowledge that he or she has read the terms and conditions.

Notify the borrower when his or her electronic signature is about to be applied to the Perkins eMPNs. Give the borrower an opportunity to cancel the signature process.

After the borrower signs the Perkins eMPNs, provide the borrower with reasonable access to the full electronic record of the eMPNs.

Minimum monthly payment option

The optional provision regarding a minimum monthly repayment amount is included as a single, optional sentence at the end of the repayment paragraph on page 1 of the MPN. You would include this sentence in the MPN if your school is exercising the minimum monthly payment amount provision. Page 2 of the MPN includes a summary of this provision. If the optional provision is included in the school's note, a minimum monthly payment of \$40 is required for a loan made on or after October 1, 1992, to a borrower who had no outstanding balance on a Perkins Loan, NDSL, or Defense Loan on the date the loan was made. (For other borrowers, the monthly minimum amount remains \$30.)

DISBURSING FEDERAL PERKINS LOAN FUNDS

Pre-disbursement activities

There are several tasks you must complete prior to disbursing Federal Perkins Loans.

You must have a process for confirming that the student understands the terms of the loan and accepts the loan by signing the MPN. For more on active and passive confirmation, see *Volume 4*.

You must confirm the student's enrollment status, because a student who is enrolled less than half time is not eligible for an in-school deferment. Also you should have a system that checks students' enrollment status periodically throughout an award year, as their status may change due to withdrawal from classes, expulsion, or unforeseen circumstance. (See *Loans to borrowers enrolled less than halftime* later in this chapter.)

Disclosures required prior to first disbursement

Before making the first Perkins Loan disbursement for an award year, the school must inform the student of his or her rights and responsibilities under the Federal Perkins Loan Program. The school must also remind the student that the loan may be used only for educational expenses and that the loan must be repaid. The school should also inform the student that the *school* holds the MPN.

The school must disclose all information to the student *in writing*—as part of the application material, as part of the promissory note, or on a separate form. Although the information can be mailed to a student, it is preferable for the aid administrator to meet with the student to answer any questions and to emphasize his or her responsibility to repay the loan.

The school must review all of the repayment terms in the promissory note. In addition, each year the school must give the following information to the student:

- the name and address of the school to which the debt is owed and the name and address of the official or servicing agent to whom communications should be sent;
- the maximum annual and aggregate amounts the student may borrow;
- the effect that accepting the loan will have on the borrower's eligibility for other types of student aid;
- a statement of the total cumulative balance owed by the student to that school and an estimate of the monthly payment amount needed to repay that balance;
- options the borrower may have for consolidation or refinancing or cancellation;

Perkins disbursements

Payment by payment period
34 CFR 674.16(b)

Uneven costs/uneven payments
34 CFR 674.16(c)

Paying prior to student beginning attendance:
34 CFR 674.16(f)

Reporting Perkins Loans to credit bureaus:
34 CFR 674.16(h)

Disclosure
34 CFR 674.16(a)

Improper Disbursements

Your school is liable for any incorrect payments made to students due to school error.

Collecting additional contact information

A school should also attempt to collect the following contact information at the time of disclosure:

- the name, address, and telephone numbers of the borrower's parents and spouse;
- the spouse's employer; and
- the names and addresses of two or three of the student's personal acquaintances.

A school may not require a borrower to provide this additional contact information as a condition for receiving a subsequent Perkins Loan. However, the additional contact information gained during loan counseling could be valuable later for use in collection procedures or to locate a student who leaves school without notice or who does not attend the exit interview. This counseling may not be used to satisfy the requirement for an exit interview.

Notification of disbursement

You must notify the borrower of each disbursement of a Perkins Loan made under the MPN. This notification should inform the borrower of the amount disbursed and provide the borrower with an opportunity to cancel the disbursement or cancel the Perkins Loan.

Disbursing Federal Perkins Loans

34 CFR 674.16(b)(c)(d)(e) & (g)

- a brief notice about the Department of Defense program for repaying loans based on certain military service;
- a complete list of charges connected with making the loan, including whether those charges are deducted from the loan or whether the student must pay them separately; and
- a notice that the school will report the outstanding balance of the loan to a national credit bureau *at least annually*.

The school should also update the identification and contact information (see sidebar).

Your school must provide the disclosure information annually before the first disbursement of each Perkins Loan made under the MPN.

Notifications

When a school credits a Perkins Loan disbursement to a borrower's account, the school must notify the borrower of the date and amount of the disbursement, the borrower's right to cancel all or part of the disbursement, and the procedures for notifying the institution that the borrower wishes to cancel the loan or the loan disbursement. The school must send this notification to the borrower no earlier than 30 days before, and no later than 30 days after, crediting the borrower's account.

You will need to retain subsidiary records of disbursements and adjustment to ensure that each Perkins Loan is legally enforceable. Actual disbursement records or student account records would serve this purpose.

Since a change in loan amount will not be reflected on the MPN, the school should notify the borrower in writing of any increase or decrease.

Disbursing Federal Perkins Loans

During each payment period, you will disburse a portion of the student's total Federal Perkins loan awarded for the academic year. In most cases, the payment for each payment period will be the following:

Loan Amount

Number of payment periods you expect the student will attend

A school may advance funds within each payment period at such time and in such amounts as it determines best meets the student's needs. If a student incurs an uneven level of expenses or resources and needs more funds in a certain payment period, you may advance the student a larger portion of their total Federal Perkins Loan to pay for those uneven costs or lack of resources. You must document the reason for the unequal disbursement and maintain that documentation in the student's file.

If an educational program does not use terms to measure academic progress for FSA purposes, the school may not make the second loan disbursement until the student successfully completes the weeks of instructional time and the credit or clock hours in the payment period. These coursework completion requirements apply to clock hour and nonterm programs and to programs with nonstandard terms that are not substantially equal in length.

Loans to borrowers enrolled less than halftime

You can disburse a Federal Perkins loan to a student enrolled less than half-time, as long as the student is not enrolled in a program leading to a professional credential as a teacher. A student who is less than half time when he or she receives the proceeds of his or her Federal Perkins loan is not eligible for an in-school deferment. Therefore, the MPN states that for borrowers enrolled on a less than half-time basis, the borrower's repayment period begins at a time that is different than for borrowers who are enrolled at least half time.

Specifically, the MPN states that for borrowers enrolled on a less than half-time basis, the borrower's repayment period begins:

1. if the borrower has a Federal Perkins Loan in repayment, on the date of the next scheduled installment payment of that loan; or
2. if the borrower has no outstanding loan, at the earlier of –
 - nine months from the date the loan was made; or
 - the end of a nine-month period that began on the date the borrower ceased to be enrolled as at least a half-time regular student and includes the date the loan was made.

Credit bureau reporting

You must report each Federal Perkins loan to at least one of the three national credit bureaus (see sidebar) with which the Department has an agreement or to a local credit bureau that is affiliated with one of those three credit bureaus. The following information must be reported:

- the amount and date of each disbursement;
- repayment information and collection of the loan until the loan is paid in full; and
- the date the loan was repaid, canceled, or discharged for any reason.

Any changes to information previously reported on a loan must be reported to the same credit bureau(s) to which the information was originally reported.

Disbursements to borrowers enrolled less than half time

34 CFR 674.32

Credit bureau reporting

34 CFR 674.16(h)

National credit bureaus

TransUnion Corporation (1-800-888-4213)
Experian (1-888-397-3742)
Equifax (1-800-685-1111)

Post-disbursement NSLDS reporting

After a Federal Perkins Loan disbursement has been made, schools with active Federal Perkins Loans (including National Direct Student Loans, National Defense Student Loans, and Income Contingent Loans) are required to report new loans or updated data on existing loans to NSLDS once a month on a schedule established by ED.

Data providers must meet all NSLDS reporting requirements as detailed in the NSLDS Federal Perkins Data Provider Instructions (Version 4) at

<http://ifap.ed.gov/nsldsmaterials/attachments/102307PerkinsDPIV4.pdf>

Return of funds

Return of funds

34 CFR 674.16(f)
34 CFR 668.22

There are circumstances under which you must return funds to the Department's Federal Perkins Loan Fund

A student who withdraws before beginning attendance is not entitled to any FSA program funds. Though ED's regulations allow a school to credit a student's accounts before the first day of classes, schools have a fiduciary responsibility to safeguard federal funds. Therefore, if your school disburses Federal Perkins funds to a student before the start of classes and the student fails to begin attendance, the school will have to return the funds.

If a student who begins classes officially or unofficially withdraws or is administratively withdrawn by the school before completing the period for which the student received Federal Perkins funds, you will have to perform a Return calculation as described in *Volume 5* in order to determine whether or not you must put money back in your Federal Perkins fund.

When a student ceases to be enrolled at least half time

Coordinating official

34 CFR 668.16(b)(1)

Required coordination process – When a student ceases to be enrolled at least half time, he or she immediately enters grace or repayment as described previously under *Loans to borrowers enrolled less than half time*. Your school must have a process for coordinating between the office that tracks enrollment status, the financial aid office, and the office that manages or coordinates the servicing of your Federal Perkins Loan portfolio.

You must have a *coordinating official* who is responsible for ensuring that such information is shared among the offices that need it. For example, the office that tracks enrollment status must alert the coordinating official when a student's enrollment status drops below half time. The coordinating official then notifies the financial aid and business office. For a more detailed discussion of the *coordinating official*, see *Volume 2*.

Subsequent disclosures and notifications

Schools must provide loan amount and loan period information to the borrower through a means other than the MPN. Schools may provide this information in any number of formats, such as award letters or other written notifications and disclosures that schools are required to provide to the borrower.

Each Perkins Loan received under an MPN is a separate and distinct loan. The disclosure information must be provided to the borrower annually, before the first disbursement of each new Perkins Loan awarded under the MPN. The disclosure information must include a statement of the total cumulative balance owed by the borrower to the school and an estimate of the monthly payment amount needed to repay the balance. In the case of a borrower who makes payments on the loan while still in school, the statement of cumulative balance owed by the borrower should be adjusted to reflect those payments.

RECOMMENDED ENTRANCE COUNSELING

Schools making Perkins loans are not required to conduct entrance counseling. However, entrance counseling can help increase student financial literacy and reduce defaults. Suggested topics for inclusion in entrance counseling are:

- **Emphasize to the borrower the seriousness and importance of the repayment obligation** the borrower is assuming by signing the MPN and accepting a Federal Perkins Loan.
- **Review the terms and conditions of the loan**, including the current interest rate, the applicable grace period, and the approximate date the first installment payment will be due. Often a student loan is the borrower's first experience in obtaining a loan of any kind, so it helps to clearly explain basic loan terminology to ensure the borrower understands the process and knows who holds his or her loan. For example, you should define such terms as loan servicer (a corporation that administers and collects loan payments for the loan holder) and the use of contractors that may service the loan.
- **Stress that repayment is required** regardless of educational outcome or subsequent employment or lack thereof. You must explain that the student borrower is obligated to repay the full loan even if he/she doesn't finish the program, can't get a job after graduating, or is dissatisfied with the school's educational program or other services.
- **Review Borrower's Rights and Responsibilities.** The student must receive a statement of your school's Borrower's Rights and Responsibilities.(BRR) (See the sample BRR following *Exit Counseling* later in this chapter.)

Providing Repayment Information

Your school must disclose the following information in a written statement provided to the borrower either shortly before the borrower ceases at least half-time study at your school or during exit counseling. If the borrower enters the repayment period without the institution's knowledge, your school must provide the required disclosures to the borrower in writing immediately upon discovering that the borrower has entered the repayment period. The repayment information must include:

- the name and address of the school to which the debt is owed and the name and address of the official or servicing agent to whom communications should be sent;
- the name and address of the party to which payments should be sent;
- the current balance owed by the borrower;
- the stated interest rate on the loan;
- the total interest charges the borrower will pay on the loan pursuant to the projected repayment schedule;
- the total amount the borrower will repay if the borrower follows the repayment schedule provided;
- the date on which the repayment period is scheduled to begin;
- a repayment schedule for all loans covered by the disclosure including the date the first installment payment is due, and the number, amount, and frequency of required payments;
- remind them (as explained in exit counseling) of the available repayment options (including special options for forbearance, deferment, consolidation, and refinancing);
- remind them of the consequences of consolidating a Federal Perkins Loan;
- a statement that the borrower has the right to prepay all or part of the loan at any time without penalty;
- a description of the charges imposed for failure of the borrower to pay all or part of an installment when due; and
- a description of any charges that may be imposed as a consequence of default, such as liability for expenses reasonably incurred in attempts by the Department or the school to collect on the loan.

34 CFR 674.42(a)

- **Describe the consequences of default**, including adverse credit reports, federal offset program, and litigation. We also recommend that you tell the borrower of the charges that might be imposed for delinquency or default, such as the school's collection expenses, late charges, and attorney's fees. Defaulters often find that repayment schedules for loans that have been accelerated are more stringent than the original repayment schedule. A defaulter is no longer eligible for any deferment provisions, even if he or she would otherwise qualify. Finally, a defaulter's federal and state tax refunds may be seized and wages garnished, and the borrower loses eligibility for any further funding from the FSA programs.
- **Explain the effect of accepting the loan** on the eligibility of the borrower for other forms of student assistance. There are program-specific rules for this and you may wish to coordinate with your school's financial aid office.
- **Explain the use of the Master Promissory Note**, the use of the multi-year feature of the MPN, and the borrower confirmation process (including the possibility of passive confirmation in subsequent award years, if applicable). You should advise students to carefully read the MPN and the Borrower's Rights and Responsibilities statement before signing the MPN. In addition, you should inform borrowers of their right to sign a new promissory note for each loan and to opt out of the multi-year feature of the MPN.
- **Inform the borrower of the availability of FSA loan information** in the National Student Loan Data System (NSLDS).
- **Discuss how to manage expenses (budgeting)**. Include general information for the student about budgeting of living expenses and personal financial management. Financial planning includes decisions by the borrower about the amount that he or she can afford to borrow. Budgeting information can be combined with an assessment of the student's earning potential in his or her chosen career and with required information about anticipated monthly payments and overall indebtedness.
- **Reinforce the importance of communicating all changes of status, etc., to the school**. Counseling should stress the student's obligation to keep the Financial Aid and Business offices informed about address changes, or changes in enrollment. (Failure to tell borrowers about their responsibility to keep the school informed is one of the most common reasons why a loan goes into default.) The student should also be reminded of the importance of notifying the school in the event of a name change (including the change of a last name through marriage) or a change in Social Security number.

- **Describe the school's refund policy and other policies affecting withdrawals.** The borrower should be made aware of the school's satisfactory academic progress policy and refund policy and how the return of FSA funds will affect loan repayment.
- **Emphasize the importance of keeping loan records.** This would be a good time, if your school has the resources, to provide a student with a folder or other aids to encourage him or her to keep all financial aid materials in one place. The student should keep copies of all records relating to the loan, beginning with the Master Promissory Note and notices showing when the student received loan payments or his or her account was credited. The student should keep any loan repayment schedules provided by the school as well as records of loan payments—including canceled checks and money order receipts. The student should keep copies of any requests for deferment or forbearance, or any other correspondence with the school.
- **Inform the student of the exit counseling requirement.** Because many students leave school before the scheduled end of their academic programs, it's helpful to remind students during entrance counseling that they are obligated to attend exit counseling before they cease to be enrolled at least half time.

Entrance counseling overview

Before a borrower takes out a loan, you must make certain disclosures to the student. You can elect to conduct a thorough entrance interview or counseling session with borrowers. Entrance interviews may be conducted individually or in a group with other borrowers. Entrance interviews are important because new students often have little or no experience with loan repayment or managing debt.

If you choose to conduct entrance counseling rather than merely providing the required information, the session may be given by a consultant or servicer or conducted online. If the information/materials are provided electronically, you'll need to make sure that the student receives written materials for any required information that is not provided in the electronic presentation. It is also helpful if someone with expertise in the FSA programs is available shortly after the interview or session to answer borrowers' questions about those programs.

You have an opportunity at the time of each disbursement to remind students about the importance of satisfactory academic progress (see the *Federal Student Aid Handbook, Volume 1 – Student Eligibility*), planning for future employment, and staying in touch with the office responsible for managing your school's Federal Perkins portfolio.

If your staff are conducting in-person counseling session, charts, handouts, audiovisual materials, and question-and-answer sessions can help convey the information in a more dynamic manner. We also recommend the use of written tests. Regardless of the methods your school uses to disclose the required information, you must be sure to document that the student received it.

EXIT COUNSELING

Exit counseling requirements

34 CFR 674.42(b)

HEA section 485(b)(1)(A)

Schools making Perkins loans are required to conduct exit counseling. As with entrance counseling, it is helpful if someone with expertise in the FSA programs is available shortly after the counseling to answer borrowers' questions about those programs.

If you elect to conduct exit counseling through interactive electronic means, the school must take reasonable steps to ensure that each student borrower receives the required materials, and participates in and completes the exit counseling. Some of the material presented at the entrance counseling session will again be presented during exit counseling. The suggested emphasis for exit counseling shifts, however, to more specific information about loan repayment and debt-management strategies.

Required elements of exit counseling

- **Review terms and conditions of the loan** including the current interest rate, the applicable grace period, and the approximate date the first installment payment will be due.
- **Inform the student as to the average anticipated monthly repayment amount** based on the student's indebtedness or on the average indebtedness of students who have obtained Federal Perkins loans for attendance at the school or in the borrower's program of study. We recommend giving the borrower a sample loan repayment schedule based on his or her total indebtedness. A loan repayment schedule usually will provide more information than just the expected monthly payment—for instance, it would show the varying monthly amounts expected in a graduated repayment plan.
- **Suggest to the borrower debt-management strategies that would facilitate repayment.** Stress the importance of developing a realistic budget based on the student's minimum salary requirements. It's helpful to have the student compare these costs with the estimated monthly loan payments, and to emphasize that the loan payment is a fixed cost, like rent or utilities.
- **Emphasize to the borrower the seriousness and importance of the repayment obligation** the borrower is assuming.
- **Provide a general description of the types of tax benefits** that might be available to borrowers.
- **Review the opportunity for and effects of loan consolidation.**
- **Explain options the borrower has to change repayment plans.**
- **Explain the use of an MPN.**

Information on consolidating Perkins Loans

During exit counseling a school must also include information on the consequences of consolidating a Perkins Loan, including:

- the effects of the consolidation on total interest to be paid, fees, and length of repayment;
- the effect on a borrower's underlying loan benefits, which includes grace periods, loan forgiveness, cancellation, and deferment;
- the option the borrower has to prepay the loan or to change repayment plans; and
- that borrower benefit programs may vary depending on the lender.

- **Explain options the borrower has to prepay** each loan or pay each loan on a compressed schedule.
- **Provide information on forbearance provisions** and a general description of terms and conditions under which the borrower may defer repayment of principal or interest or be granted an extension of the repayment period.
- **Provide information on loan forgiveness and cancellation** and the conditions under which the borrower may obtain full or partial forgiveness or cancellation of principal and interest.
- **Describe the consequences of default**, including adverse credit reports, federal offset, and litigation. We also recommend that you tell the borrower of the charges that might be imposed for delinquency or default such as the school's collection expenses, late charges, and attorney's fees. Defaulters often find that repayment schedules for loans that have been accelerated are more stringent than the original repayment schedule. A defaulter is no longer eligible for any deferment provisions, even if he or she would otherwise qualify. Finally, a defaulter's federal and state tax refunds may be seized and wages garnished, and the borrower loses eligibility for any further funding from the FSA programs.
- **Emphasize that the borrower is obligated to repay the full amount of the loan** even if the borrower has not completed the program, is unable to obtain employment upon completion, or is otherwise dissatisfied with or does not receive the educational or other services that the borrower purchased from the school.
- **Require the borrower to provide current information** concerning name, address, Social Security number, references, and driver's license number; and the borrower's expected permanent address, the address of the borrower's next of kin, and the name and address of the borrower's expected employer.
- **Remind the borrower that, in a timely manner, he or she must inform the school of any changes to the aforementioned information.**
- **Remind the borrower of the existence and purpose of the Student Loan Ombudsman's office.** The Ombudsman's office is a resource for borrowers when other approaches to resolving student loan problems have failed.
- **Inform the borrower of the availability of FSA loan information in the National Student Loan Data System (NSLDS).**

Sample Summary of the Rights and Responsibilities as a Federal Perkins Loan Borrower

This is only a summary of your rights and responsibilities. For more detailed information, consult your Federal Perkins Loan promissory note or the holder of your loan.

You have the right to cancel all or part of your Federal Perkins Loan.

If your Federal Perkins Loan is placed in deferment, you will not have to make payments, and interest will not accrue.

You have the right to receive a statement of your account upon request.

You have the right to forbearance—a temporary cessation of payments, an extension of the time for making payments, or temporarily making smaller payments than were previously scheduled under certain health-related or financial circumstances. You also have the right to have part or all of your loan cancelled for –

You have the right to prepay all or part of your loan without any penalty.

If you graduate or leave school, or if your enrollment drops below half time, you have the right to a nine-month grace period before beginning repayment of your Federal Perkins Loan.

You have the right to defer payments on your Federal Perkins Loan if you are attending an eligible postsecondary school as at least a half-time student, and in some cases if you are –

- participating in a rehabilitation training program;
- enrolled and attending graduate school;
- participating in an internship or residency program in dentistry;
- seeking but unable to find full-time employment;
- experiencing economic hardship;
- serving in the Peace Corps;
- are receiving payment from a federal or state public assistance program;
- performing qualifying military service, or
- are repaying federal education loans that exceed or for which the payments exceed certain specified amounts.
- death or total and permanent disability;
- full-time employment in the Head Start Program or full-time staff member in a child care or pre-Kindergarten program;
- full-time employment as a teacher in an elementary school serving low-income students;
- full-time teaching as a special education teacher;
- full-time teaching of certain academic subjects in which there are teacher shortages;
- full-time employment as a nurse or medical technician;
- full-time employment in a public or nonprofit child or family service agency;
- full-time service as a qualified professional provider of early intervention services;
- full-time employment as a law enforcement or corrections officer or firefighter;
- military service in a hostile fire/imminent danger area;
- full-time employment as a librarian with a master's degree or speech language pathologist with a master's degree;
- full-time employment as a faculty member in a tribal college; or
- full-time employment as a federal public defender or federal community defender.

Sample Summary of the Rights and Responsibilities as a Federal Perkins Loan Borrower, contd.

This is only a summary of your rights and responsibilities. For more detailed information, consult your Federal Perkins Loan promissory note or the holder of your loan.

You are responsible for using the proceeds of your Federal Perkins Loan only to pay authorized educational expenses.

You are responsible for repaying the full amount of your Federal Perkins Loan even if you –

- do not complete the program;
- are unable to obtain employment upon completion; or
- are dissatisfied with the program or other services you purchased from the school.

Repayment begins the day after your nine month grace period ends.

You are responsible for notifying the financial aid office if you–

- change your local address, permanent address, or telephone number;
- change your name (for example, maiden name to married name);
- do not enroll at least half-time for the loan period certified by the school;
- do not enroll at the school that determined you were eligible to receive the loan;
- stop attending school or drop below half-time enrollment;
- transfer from one school to another school; or
- graduate.

You are also responsible for notifying the financial aid office if you–

- change your employer, or your employer's address or telephone number changes, or
- have any other change in status that would affect your loan (for example, if you received a deferment while you were unemployed but you have found a job and therefore no longer meet the eligibility requirements for the deferment).

You are responsible for obtaining, completing, and returning to the school for processing any forms required to apply for forbearance, deferment, or cancellation benefits.

You are responsible for notifying the school before the due date of any payment that you cannot remit.

You are responsible for making payments on time even if you do not receive a billing statement.

You may contact the school by writing to us at

School Name
Business Office
Building, Name, Room Number
City, State Zip

by calling us at

(555) 666-1234

by sending an e-mail to

PerkinsRepayment@ZCC.edu

PERKINS REIMBURSEMENT AND ASSIGNMENT

Reimbursement of the Perkins Fund

Reimbursement for overpayments or default

34 CFR 674.13(a)(2) & (c)

The Department may require your school to reimburse its Perkins Loan Fund for any outstanding balance on an overpayment or a defaulted loan for which your school failed to record or retain the promissory note, record disbursements, or exercise due diligence. Your school must also reimburse the Perkins Loan Fund for the amount of the administrative cost allowance claimed on any reimbursed portion of a loan.

You do not have to reimburse the Perkins Loan Fund if your school can recover the defaulted loan or show the Department that the borrower would not have paid the loan even if your school properly exercised due diligence. Also, you should not reimburse the Perkins Loan Fund for loans on which your school obtains a judgment.

INTERNAL CONTROLS IN THE FEDERAL PERKINS LOAN PROGRAM – RECONCILIATION, FISCAL AND PROGRAM RECORDS

Your school must reconcile, at least monthly, your Federal Perkins Loan draws recorded in G5 to the funds received in the bank account your school has designated to receive electronic transfers. You must also reconcile monthly the amount drawn down and received to the amounts disbursed to students or returned to ED, and explain all discrepancies.

In addition, you should examine your Federal Perkins Loan program and fiscal records at the start of the year and monthly.

- Do all funds paid directly by students, collected by third-party servicers, received for loans cancelled, and received as interest flow into your Federal Perkins Loan Bank Account, and are they reflected on your Asset Account, Cash - Federal Perkins Loan?
- If ED provides an FCC, do you ensure that you only request FCC funds if the total of disbursements you anticipate making exceeds the balance in your Federal Perkins Loan Bank Account and reflected on your Asset Account Cash, Federal Perkins Loan (cash on hand and available for lending)?
- If ED provides an FCC, is your ICC consistently deposited at the same time you receive your FCC? (A school may deposit ICC into its Perkins Fund Loan at any time for the purposes of meeting its lending needs.)

- Regardless of whether a school receives an FCC, it must return any excess liquid capital (the amount by which its cash from all sources for the award year significantly exceeds the year's total expenditures). Do you have a system that ensures the cash on hand in your Perkins account at the end of the award year is kept to a reasonable minimum?

WHEN ONE OF YOUR SCHOOL'S FEDERAL PERKINS LOANS IS CONSOLIDATED

If a student with an outstanding Federal Perkins loan from your school applies to have that loan consolidated, the Direct Loan Consolidation Center (DLCS) will send you a Loan Verification Certificate (LVC). You have 10 days from the date of receipt to complete the LVC and return it to DLCS. You are not required to provide the requested loan information if there is a judgment against the borrower on the loan that the borrower wants to consolidate.

If DLCS makes the consolidation loan, you will receive the amount you indicated on the LVC plus some interest. You must deposit the funds in the account holding your Federal Perkins revolving fund, record the deposit in the appropriate ledgers (and contra accounts), and report the payment on your FISAP.

If the amount you receive from DLCS is more than what is owed on the loan you must return the overpayment to DLCS. You may not distribute any funds to the borrower. If the amount you receive is less than what is owed on the loan you must request the underpayment from DLCS. You may not bill the student. (34 CFR 685.220(f) (iii) (4)).

LVC

34 CFR 685.220(f)(1)(i)
DCL FP-04-02

TIP

If a school is closing and wishes to provide an orderly withdrawal from the Perkins Loan Program, these procedures may be followed in conjunction with the guidance provided by the Department of Education's School Participation Team at:

<http://ifap.ed.gov/ifap/helpContactInformationDetailedList.jsp?contactname=School%20Participation%20Teams>

Contact Information

If you have questions about liquidating your loan portfolio or assigning loans to ED, contact the Campus-Based Call Center at 877-801-7168. Customer service representatives are available Monday through Friday from 8:00 a.m. until 8:00 p.m. (ET). You may also e-mail CBFOB@ed.gov.

ENDING YOUR SCHOOL'S PARTICIPATION IN THE PERKINS LOAN PROGRAM

A school must liquidate its Perkins Loan portfolio when:

- the school voluntarily withdraws from the Perkins Loan Program,
- the school is no longer advancing Perkins Loan funds to students, or
- the school's participation is terminated by the Department due to loss of eligibility or revocation of a provisional certification.

For complete coverage of Perkins liquidation procedures see the attachment titled "*Federal Perkins Loan Liquidation Procedures*" in an Electronic Announcement of 2011-08-05.



Eight Steps for Schools Ending Participation in the Federal Perkins Loan Program

(for complete instructions see Electronic Announcement 2011-08-05)

Step 1. Notify the Department of Education of Intent to Liquidate

A school must notify the Department of Education (the Department) of its intent to liquidate its Federal Perkins Loan portfolio by written notification.

Written Notification: A school must notify the Department of its intent to liquidate by sending a letter to:

Federal Perkins Loan Program Liquidation
Grants & Campus-Based Division
U.S. Department of Education
Union Center Plaza
830 First Street, NE, Room 63C1
Washington, DC 20202

Alternatively, the Department will accept an e-mail as written notification. The e-mail must be sent by an authorized official of the school, such as the Financial Aid Administrator or President to: **perkinsliquid@ed.gov**

Step 2. Assign Loans to the Department of Education

When a school liquidates its Perkins portfolio, it must assign the remaining loans with outstanding balances to the Department for collection. The school must inform servicers involved in billing or collection activities to return outstanding accounts to the school so that it can begin the loan assignment process, which results in the Department becoming the holder of the loan. The school must submit a completed Perkins Assignment Form (OMB Form 1845-0048) with each outstanding Perkins, National Direct Student Loan (NDSL), and Defense Loan. Using Departmental student data and FISAP data, the Department will work with the school to reconcile any discrepancies between what it reports and what we have on file. The total amount of loans we have in our records must match what is reported by the school on the FISAP.

Step 3. Initiate Independent Perkins Program Audit

The regulations (34 CFR 668.26) require a school to submit a letter of engagement for an independent audit of all funds that the school received under the program to the Secretary within 45 days after the school's participation ends. The results of the independent audit must be submitted to the Secretary within 45 days after the date of the engagement letter with the audit firm.

Step 4. Continue Reporting to NSLDS

A school must complete its NSLDS reporting requirements in accordance with the instructions in the *NSLDS Enrollment Reporting Guide* posted September 9, 2008, and *Perkins Data Provider Instructions* dated October 23, 2007. NSLDS reporting must continue until all of a school's outstanding Federal Perkins Loans are fully retired, accepted for assignment by the Department, or purchased by the school.

Step 5. Return the Federal Capital Contribution to the Department of Education as Determined by the Independent Audit and Verified by the Department

The final capital distribution from a school's Federal Perkins Loan revolving fund must be made in accordance with Title IV, Part C, Section 466(c) of the Higher Education Act of 1965, as amended (HEA). This section requires a school to return the federal share of a school's Federal Perkins Loan revolving fund to the Department as calculated and verified by the Independent Perkins Program Audit and again verified by the Department (See Step 3).

Step 6. File a Final FISAP**Step 7. Reconcile FISAP Data with Department of Education****Step 8. Receive Official Liquidation Completion Letter from the Department of Education**

Once the liquidation requirements are satisfied, a letter of approval will be sent to your school from the Department's Grants and Campus Based Division. Your school must receive this letter, which will confirm completion of the liquidation process. **Please refer to the attachment titled "Federal Perkins Loan Assignment Procedures" in an Electronic Announcement of 08-05-2011 for additional steps you must take.**

Assignment of loans

34 CFR 674.50

Assignment of Perkins Loans to the Department

Schools may assign defaulted loans to the Department at any time during the program year. All loans that a school assigns to the Department are assigned without recompense. The Department will not reimburse the school's Federal Perkins Loan Fund for the loans, and all rights, authorities and privileges associated with the loan are transferred to the United States. The school is relieved of incurring additional expenses in attempting to collect on the loan. Any funds collected by the Department on these loans are the property of the United States.

Note: Assignment of defaulted loans will not affect the calculation of the school's Perkins Loan cohort default rate.

The Department recognizes that a school may have exhausted all of its available collection options on some of its defaulted Perkins loans and encourages schools to assign these loans to the Department so additional steps can be taken to recover the loan funds. The Department has collection tools that are not available to schools, such as administrative wage garnishment, Treasury offset, and litigation by the Department of Justice.

Perkins Loans may be assigned to the Department when a school:

- chooses to assign defaulted Perkins loans after due diligence has still resulted in default,
- assigns a loan to the Department after making an initial determination of borrower eligibility for a total and permanent disability discharge, and
- is liquidating its Perkins Loan portfolio and assigns both defaulted and non-defaulted loans to the Department.

For complete coverage of Perkins Assignment procedures see the attachment, titled *"Federal Perkins Loan Assignment Procedures"* in an Electronic Announcement of 08-05-2011.



Submission period deadline

Schools participating in the Federal Perkins Loan Program may submit assignment packages to the Department at any time during the processing year (the processing year runs from July 1 of one calendar year through June 30 of the next calendar year; for example, July 1, 2011—June 30, 2012). However, to avoid delays and facilitate the FISAP reporting process, any assignment submission or resubmission mailed by a school between June 21 and June 30 must have a postdated certification date of July 1 of the following processing year, with interest due for the assigned loan(s) calculated through that July 1.

Submission documentation

The loan period for a Perkins/NDSL loan may not exceed one year. If a borrower attends a school for more than one academic year, and receives a Perkins/NDSL loan for each of those years, the borrower has received a separate Perkins/NDSL loan for each year of attendance. Separate loans may only be bundled together into one account for assignment if they have been reported to NSLDS as one loan. Do not bundle the loans if they have been reported individually to NSLDS. A school is required to submit the documentation for any loan that is submitted for assignment.

Questions about assignment processing

Questions regarding the assignment process as it pertains to the rest of the student financial aid award process, or questions concerning the management of student loans not assigned to the Department should be directed either in writing or by phone to the School Participation Team serving your region.

More specific questions pertaining to the procedures for assignment of accounts set forth in this letter, or pertaining to the status of your assignment submissions, or pertaining to the correction of rejected submissions, can be directed to the Processing Division, Perkins Loan Assignments at 415-486-5677.

Written inquiries should be mailed to:

Federal Student Aid
U.S. Department of Education Operation Services
Processing Division
Perkins Loan Assignments
50 Beale Street, Suite 8601
San Francisco, CA 94105-1813

Required Assignment Documents Include

1. Submission Package Manifest
2. Perkins Assignment Form
3. Original Promissory Note and Certification/Audit of E-Signature Process
4. Judgment Information (If Applicable)
5. Bankruptcy Information (If Applicable)
6. Due Diligence Documentation (If applicable)

and the following optional information:

- Disbursement Records
- Repayment Schedule
- Complete Repayment History
- Acceleration Notice
- Documentation of Recall
- Approved Cancellation Documentation

Notification to borrowers of assigned loans

A school must notify borrowers of the pending assignment of their loan(s) to the Department. Such notification should take place at least 90 days prior to assignment of the loan. Occasionally, this notification results in payments from borrowers who have been unwilling to make payments in the past.

Any payments received by the school or its servicer after the certification date on the Perkins Assignment Form become the property of the Department, unless the Department rejects that account.

Borrowers seeking to make repayment after acceptance by the Department of their assigned loans should be referred to the Department's Customer Service Center.

U.S. Department of Education
P.O. Box 5609
Greenville, TX 75403-5609

Tel.: 800-621-3115

Do not refer borrowers to the Processing division in San Francisco.

Payments from borrowers received after assignment

Payments from a borrower received by a school or its servicer after the borrower's account has been submitted to and accepted by the Department for assignment should be forwarded, as soon as possible, to:

National Payment Center
P.O. Box 105028 - Perkins Loan (NDSL)
Atlanta, GA 30348-5028

Each payment submission must clearly identify the borrower's full name, Social Security number, and the type of loan to which the payment is to be applied.

Once an account is submitted for assignment, it becomes the property of the Department and will only be returned to the institution for deficiencies related to its submission. Therefore, an institution should not contact ED to request the return of a submission because a borrower has made a payment to the institution.

Payment received after account has been submitted, not yet assigned

If payments are received on accounts that have been submitted to the Department for assignment but have not yet been accepted by the Department, the school should deposit the funds immediately and await official notification of acceptance. Upon acceptance of the account, the institution must issue a check to the Department, including the borrower and loan information noted previously.

Collection fees

Any collection agency fees that are deducted from payments received after account submission to the Department are the sole responsibility of the institution and may not be charged to the Federal Perkins Program Loan Fund. The entire borrower payment must be forwarded to the Department.

Perkins recordkeeping

Perkins Loan records a school must maintain include but are not limited to:

- documentation of each student's eligibility for a Perkins Loan,
- the promissory note,
- documentation of the amount of a Perkins Loan, its payment period, and the calculations used to determine the amount of the loan,
- documentation of the date and amount of each disbursement of Perkins Loan funds, and
- information collected at initial and exit loan counseling required by Perkins Loan regulations.

You must maintain a copy of the promissory note signed by the student. When the borrower has fully repaid the Perkins Loan, your school must either notify the borrower in writing or mark the original note "paid in full" and return to the borrower. Your school must keep the original or a copy of the promissory note for at least three years after the date the loan was paid in full.

If your school uses an electronic Perkins promissory note, it must maintain an affidavit or certification regarding creation and maintenance of the electronic note, including its authentication and signature processes.

For each Perkins Loan borrower, a school must also maintain a repayment history that shows:

Sample certification statement

If the original promissory note is released for the purpose of enforcing repayment, the school must keep a certified true copy. To qualify as a certified true copy, a photocopy (front and back) of the original promissory note must bear a certification statement signed by the appropriate school official. The following text can be used as the certification statement on a certified true copy of a Perkins promissory note.

CERTIFIED TRUE COPY: I declare under penalty of perjury that the foregoing is a true and correct copy of the original promissory note.

Signature: _____
Title: _____
Date: _____

- the date and amount of each repayment during the life of the loan;
- the amount of each repayment credited to principal, interest, collection costs, and either penalty or late charges;
- the date, nature, and result of each contact with the borrower (or endorser for loans made prior to July 23, 1992) in the collection of an overdue loan; and
- copies of all correspondence to or from the borrower (and endorser for loans made prior to July 23, 1992), except for bills, routine overdue notices, and routine form letters (demand letters, notices of intent to accelerate, and the like are not considered to be routine form letters).

Perkins Repayment Plans, Forbearance, Deferment, Cancellation, and Discharge

CHAPTER 4

Repayment terms vary substantially among Perkins Loans, National Direct Student Loans, and National Defense Student Loans. In addition, the Federal Perkins Loan Program offers borrowers a variety of forbearance, deferment, and cancellation options. Finally, there are a number of situations that allow a Perkins, NDSL, or Defense Loan to be discharged. All of these topics are addressed in this chapter.

GRACE PERIODS

A *grace period* is the period of time before the borrower must begin or resume repaying a loan. There are two kinds of grace periods for Perkins loans:

- *Initial grace period*—a nine-month grace period that immediately follows a period of enrollment and immediately precedes the date repayment is required to begin *for the first time*. A borrower is only entitled to one initial grace period.
- *Post-deferment grace period*—a six-month grace period that follows any subsequent period of deferment.

Initial grace periods

A Perkins borrower is entitled to an initial grace period of nine consecutive months after dropping below half-time enrollment. If the borrower returns to school on at least a half-time basis before the nine months have elapsed, the initial grace period has not been used. The borrower is entitled to a full initial grace period (nine consecutive months) from the date that he or she graduates, withdraws, or drops below half-time enrollment again.

Post-deferment grace periods

A “post-deferment grace period” is the period of six consecutive months that immediately follows the end of a period of deferment and precedes the date on which the borrower must resume repayment on the loan. Neither the deferment nor the grace period is counted as part of the 10-year repayment period.

Except for hardship deferments on loans made before July 1, 1993, all deferments for all loans made under the Federal Perkins Loan Program have post-deferment grace periods of six consecutive months.

Grace period

Definitions

34 CFR 674.2

Length of grace period;

34 CFR 674.20(b)(2)(A), (B), & (C)

Prepayment

34 CFR 674.31(b)(4)

Less than half-time grace periods

34 CFR 674.32

Grace periods for NDSLs

Note that repayment of an NDSL made on or after October 1, 1980, begins **six months** after the date that the borrower drops below at least half-time enrollment.

NDSL on or after October 1, 1980

34 CFR 674.20(2)(A)

- Initial grace period is six months
- Post-deferment period is six months

NDSL before October 1, 1980

34 CFR 674.20(2)(B)

- Initial grace period is nine months
- Post-deferment period is nine months

When repayment begins

34 CFR 674.20(b)(2)(C)

Approved leaves of absence

34 CFR 668.22 (c)(1)(v) and (vi);
34 CFR 668.22 (d)

Deferment during initial grace period

If a borrower requests a deferment to begin during the initial grace period, the borrower must waive (in writing) his or her rights to the initial grace period. The request for a deferment alone is not sufficient documentation for a school to waive the initial grace period; the borrower must also acknowledge in writing that he or she wants the waiver.

Applicable grace period when student is attending less than half time

A borrower who is attending less than half time and who has no outstanding Perkins/NDSL Loan must begin repaying a new loan nine months from the date the loan is made or nine months from the date the student enrolled less than half time, whichever is earlier. (This nine-month period includes the date the loan was made.)

A borrower who is attending less than half time and who has an outstanding Perkins Loan or NDSL must begin repayment on an additional loan when the next scheduled installment of the outstanding loan is due; there is no formal grace period or in-school deferment on the new loan.

Calculating the grace period

A grace period is always day specific—an initial grace period begins the day after the day the borrower drops below half-time enrollment. Similarly, a post-deferment grace period begins on the day immediately following the day on which an authorized period of deferment ends.

If a borrower has received loans with different grace periods (and different deferment provisions), the borrower must repay each loan according to the terms of its promissory note; the borrower must pay the minimum monthly payment amount that applies to each loan that is not in a grace or deferment period.

Grace period when student doesn't return from leave of absence

Students granted approved leaves of absence retain their in-school status for FSA loans. However, if a student does not return from an approved leave of absence, the student's grace period begins the date the student began the leave of absence. (If the school is required to take attendance, the grace period begins on the last date of academic attendance.)

For a student who does not return from an approved leave of absence, this withdrawal date might result in the exhaustion of some or all of the student's grace period.

Leaves of absence no longer qualify as approved leaves of absence for FSA purposes unless the school explains the effects that the student's failure to return from an approved leave of absence might have on the student's loan repayment terms, including the exhaustion of some or all of the student's grace period.

Use of Initial Grace Period

Example: student returns before initial grace period elapses

Fenriz takes out a Perkins Loan in the fall quarter at Sims School of Botany but drops out of school for the winter quarter. He reenrolls as a half-time student in the summer session before the nine-month grace period has expired. Therefore, Fenriz is entitled to a full initial grace period once he again leaves school or drops below half-time status.

Example: different grace period for earlier loans

Steve took out several Perkins Loans while attending New Frontier Community College (NFCC) and began repaying them nine months after graduating. Later, he enrolled in a bachelor's degree program at Old Ivy College, and was able to defer his older Perkins Loans. He took out two additional Perkins Loans at Old Ivy.

When Steve graduates from Old Ivy, he is entitled to an initial grace period (nine months) for his Perkins Loans at Old Ivy but must resume repaying his older Perkins loans (from NFCC) at the end of the six-month postdeferment period.

Exclusion for reservists on active duty

If a borrower is a member of the Armed Forces Reserve, the initial grace period does not include any period (up to three years), during which the borrower is ordered to active duty for more than 30 days, including the period necessary for the borrower to resume enrollment at the next available enrollment period. The period necessary for the borrower to resume enrollment at the next available enrollment period may not exceed 12 months.

The borrower must notify you of the beginning and end dates of his or her service and the date he or she resumes enrollment. A borrower who enrolls in a different educational program after returning from active duty is entitled to the same grace period benefits. A borrower who is in a grace period when called or ordered to active duty is entitled to a new grace period upon conclusion of the excluded period.

Grace Periods and Less than Half-time Enrollment

Example: Perkins received while enrolled less than half time

Paula starts school full-time in September. She does not have an outstanding Perkins Loan or NDSL. In January, Paula drops to one-quarter-time and in March, she receives a Perkins Loan.

Since Paula dropped below half-time enrollment *before* the Perkins Loan was made, Paula must begin repayment nine months after the date she dropped below half-time enrollment—her first payment will be due in October.

Example: Second Perkins Loan received while first loan is in repayment

Jason has been making monthly payments on Perkins Loan #1, which went into repayment nine months after he completed a one-year program at a career school.

He subsequently enrolls in a new program at a community college and takes out Perkins Loan #2 in September. He is only enrolled one-quarter-time at the community college, so he is not eligible for in-school deferment. His next payment on Loan #1 is due October 15. Jason will begin repaying Loan #2 at the same time. *Remember that the repayment status of the outstanding loan determines the repayment status of the second loan.*

Contacts with borrower during Perkins grace period

If the borrower's Perkins loans have a six-month grace period, you must contact that borrower at the 90-day and 150-day points in the grace period. If the borrower's Perkins loans have a nine-month grace period, you must also contact the borrower at the 240-day point.

First contact: 90 days after the grace period begins

The school or servicer must —

- remind the borrower of the responsibility to comply with the terms of the loan,
- inform the borrower of the total outstanding amount on the loan account, including the principal and interest accruing over the remaining life of the loan, and
- notify the borrower of the date and amount of the first requested payment.

Second contact: 150 days after the grace period begins

The school or servicer must remind the borrower of the date and amount of the first requested payment.

Third contact (nine-month grace periods only): 240 days after the grace period begins

The school or servicer must remind the borrower of the date and amount of the first requested payment.

Prepayment

A borrower may prepay all or part of a Perkins Loan at any time without penalty.

If a borrower makes a payment during the academic year in which a loan was made, the school must use any amount repaid to reduce the original loan amount and not consider these amounts to be prepayments.

If a borrower makes a payment during the academic year in which the loan was made and the initial grace period ended, only those amounts in excess of the amount due for any repayment period shall be treated as prepayments.

If a borrower makes a payment in any academic year, other than the one in which the loan was made, that exceeds the amount due for any repayment period, the school must use the excess to prepay the principal unless the borrower designates it as an advance payment of the next regular installment. 34 CFR 674.31(b)(4)

Pre-collection activities during the grace period

Effective collection procedures on the part of a school or its servicer begin on the day a student ceases to be enrolled at least half time. By performing certain pre-collection activities, a school or its servicer can increase the likelihood that a student will begin satisfactory repayment on his or her Federal Perkins Loan.

The school must perform and maintain documentation substantiating that it has contacted the borrower.

1. For Federal Perkins Loans, the school shall contact the borrower three times within the initial grace period.
2. For loans with a six-month initial or post-deferment grace period, the school shall contact the borrower twice during the grace period.
3. The school or its servicer shall contact the borrower for the first time 90 days after the commencement of any grace period. The school shall, at this time, remind the borrower of his or her responsibility to comply with the terms of the loan and shall send the borrower the following information:
 - the total amount remaining outstanding on the loan account, including principal and interest accruing over the remaining life of the loan; and
 - the date and amount of the first required payment.
4. The school shall contact the borrower the second time 150 days after the commencement of any grace period. The school shall, at this time, notify the borrower of the date and amount of the first required payment.
5. The school shall contact a borrower with a nine-month initial grace period a third time 240 days after the commencement of the grace period and shall inform him or her of the date and amount of the first required payment.

Payment made during initial grace period example

Shannon applies her yearly birthday check of \$400 to her \$1,000 Perkins Loan before the initial grace period ends. The principal advanced to Shannon becomes \$600. This is not considered a prepayment because payment was made before the end of the initial grace period.

Repayment plan requirements

34 CFR 674.33(a)

Minimum monthly payments

34 CFR 674.33(b)

Calculating payment amount example

Bernadine received a \$2,500 Perkins Loan to attend Jordan College, which requires quarterly payments. To calculate Bernadine's quarterly payment, Jordan College multiplies the original principal by the constant multiplier for a quarterly payment frequency:

$$\$2,500 \times .0319214 = \$79.80$$

ESTABLISHING A REPAYMENT PLAN

A borrower must repay his or her loan, plus interest, in 10 years. This repayment period never includes authorized periods of deferment, forbearance, or cancellation.

The repayment plan must be established and disclosed to the student before the student ceases to be enrolled at least half time.

If a borrower wants to repay the loan in graduated installments, he or she must request permission to do so from the school; if the school agrees to this type of repayment, a graduated installment schedule is prepared and submitted to the Department for approval. If the Department approves the school's request, the borrower may use the graduated method of repayment.

If a student receives loans from more than one school, the repayment of each loan is made to (or default is attributed to) the school where the student received the loan.

Calculating the repayment amount

Schools may require the borrower to make payments on a monthly, bimonthly, or quarterly basis. Each of the borrower's payments must sufficiently cover the interest accruing between payments to ensure that the loan is repaid in 10 years. Schools calculate the correct payment amount by multiplying the principal by the appropriate constant multiplier (see table). Schools using the minimum monthly payment plan option may require the borrower to pay a minimum monthly amount of \$40 instead.

If the installment for all loans a school made to a borrower is not a multiple of \$5, the school may round the installment payments to the next highest dollar amount that is a multiple of \$5.

If the last scheduled payment is \$25 or less, the school may combine it with the next-to-last payment.

10-year repayment table of constant multipliers

Annual Rate	Payment Frequency	Payments per year	Total Payments	Constant Multiplier
5%	Monthly	12	120	.0106065
5%	Bimonthly	6	60	.0212470
5%	Quarterly	4	40	.0319214

$$\text{Principal} \times \text{Constant Multiplier} = \text{Payment Amount}$$

Interest accrual

Interest on a Perkins Loan must be computed at the rate of 5% per annum simple interest on the unpaid principal balance. Although interest accrues on a Perkins Loan, *your school may not capitalize it*. This means that your school may not add unpaid interest to the principal balance to increase the principal balance of the Perkins Loan. Instead, your school must track principal and interest as separate figures, adding accrued interest to the interest balance, *not* the principal balance.

Generally, interest is computed from the date a payment is received rather than from the due date. However, there are exceptions. Interest charges may be computed to the nearest first-of-the-month, or they may be computed in accordance with the borrower's established schedule of payments of principal and interest if the borrower is making payments on a regular basis according to that schedule. For example, if a grace period expires in the middle of a month, interest may be computed to the beginning of the next month. Also, if a past-due payment is received before the next regularly scheduled payment, the interest may be computed according to the established payment schedule—no adjustments are necessary.

Incentive repayment program

To encourage repayment, a school may:

- reduce a loan's interest rate by up to 1% if the borrower makes 48 consecutive monthly payments;
- discount by up to 5% the balance a borrower owes on a loan if he or she pays the loan in full before the end of the repayment period; or
- with the Secretary's approval, establish any other repayment incentive options that reduce default and replenish student loan funds.

A school may not use federal funds or school funds from the Perkins Loan revolving fund to absorb the costs associated with repayment incentives. On at least a quarterly basis, schools must reimburse the Perkins Loan Fund for income lost as a result of the discounts offered through the Incentive Repayment program.

Interest rate on older Perkins, NDSLs, etc.

National Defense Student Loans (Defense Loans), NDSLs, and older Perkins Loans have different interest rates. The interest rate is stated in the borrower's promissory note. The annual interest rate for loans made before July 1, 1981, was 3%; between July 1, 1981, and September 30, 1981, was 4%; on or after October 1, 1981, is 5%.

Incentive repayment program

34 CFR 674.33(f)

Simple interest accrual example

Fred has been granted a hardship forbearance for a year. At the beginning of his forbearance period, Fred's loan balance is \$1,000:

Principal: **\$1,000**
Interest: **\$0**

Interest accrues throughout the forbearance period at a simple rate of 5% per annum. At the end of the year-long forbearance period, Fred's loan balance is \$1,050:

Principal: **\$1,000**
Interest: **\$50**

When Fred makes his first payment after the end of the forbearance, his payment is applied to interest first, then principal. Fred makes a payment of \$25, reducing his balance to \$1,025:

Principal: **\$1,000**
Interest: **\$25**

Minimum monthly repayment cite

34 CFR 674.33(b)

Minimum monthly repayment amount for older loans

The minimum monthly repayment amount is **\$30** for NDSLs and Perkins Loans made before October 1, 1992, and Perkins Loans made after October 1, 1992, to borrowers who have an outstanding balance on a Perkins Loan, NDSL, or Defense Loan made before October 1, 1992, that included a \$30 minimum monthly repayment provision. The minimum monthly repayment amount is **\$15** for Defense Loans.

If a borrower has both Defense and NDSL or Perkins Loan from one or more schools and the total monthly repayment is less than \$30 and the monthly repayment on a Defense Loan is less than \$15, the amount applied to the Defense Loan may not exceed \$15.

Hardship payment reduction

A school may reduce a borrower's scheduled payments for up to one year at a time if the borrower is scheduled to pay the \$40 minimum monthly payment and the school determines that the borrower is unable to make the scheduled payments due to hardship, such as prolonged illness or unemployment.

Minimum monthly repayment amounts

Schools may choose to include a minimum monthly repayment requirement in the Perkins Loan promissory note. The minimum monthly repayment amount is \$40, unless the borrower on the date the new loan is made has an outstanding balance on a Perkins Loan, NDSL, or Defense Loan made before October 1, 1992, that included a \$30 minimum monthly repayment provision. (See sidebar.)

To determine the minimum repayment for bimonthly and quarterly payment schedules, schools should multiply \$40 by two (months) and three (months), respectively.

Conditions for minimum monthly repayment

A school may require a borrower to pay a minimum monthly payment amount of \$40 on a Perkins Loan if:

- the promissory note includes a provision specifying a minimum monthly repayment of \$40 and the monthly repayment of principal and interest for a 10-year repayment period (as calculated using a constant multiplier) would be less than \$40; or
- the borrower has received Perkins Loans with different interest rates at the same school and the total monthly payment would otherwise be less than \$40 (provided any of the promissory notes includes the minimum monthly repayment provision).

Under no circumstances may a school require a minimum monthly repayment of more than \$40.

Multiple loans at same school

If a borrower has multiple Perkins Loans from the same school, any of which include the minimum monthly payment provision, the school may require the borrower to make a minimum monthly payment if the borrower's total monthly payment on all the loans totals less than \$40. (A student's monthly payment amount may need to be higher than \$40, of course, so that his or her debt is repaid by the end of 10 years.)

If the school exercises this option, the school must divide each monthly payment among all the loans proportionate to the amount of principal advanced under each loan. If the borrower's total monthly payment equals or exceeds \$40 for all of the loans made at that school, the school may not exercise the minimum monthly payment on any loan. The school determines the minimum monthly repayment in this manner even if the Perkins Loans have different interest rates.

If the borrower has received Perkins Loans with different grace periods and deferments, the school must treat each note separately. The school still divides the minimum monthly payment proportionately among the loans. However, the borrower must pay each loan's portion when it is due.

Loans from multiple schools

A borrower may have received Perkins Loans from more than one school. If the borrower wants your school to coordinate minimum monthly payments with another school, he or she must request such coordination.

If the total of the monthly payments is

- *at least equal to \$40*, none of the lending schools may exercise the minimum monthly repayment requirement.
- *less than \$40, but only one school exercises the minimum monthly payment option*, that school receives the difference between \$40 and the repayment owed to the second school.
- *less than \$40 and each school exercises the minimum repayment option*, the \$40 minimum repayment is divided among the schools in proportion to the total amount of principal each has advanced.

If the borrower requests that your school coordinate minimum monthly payment amounts with another school, you should ask the borrower for

- the names of all other schools to which the borrower owes funds under the Federal Perkins Loan Program,
- the approximate amount borrowed from, and the current indebtedness to, each school, and
- any information that would help identify the loans—for example, the loan number and the dates of loan advances.

Using this information, the schools should contact each other and negotiate the amount each should receive from the borrower.

Loans from multiple schools

34 CFR 674.33(b)(2) & (3)

Two schools/minimum monthly payment amount example

Betsy has Perkins Loans from Heinz College and Elise University. Heinz does not exercise the minimum monthly payment option and receives from Betsy \$25 a month (the amount due under its established 10-year repayment plan). Elise exercises the \$40 option and receives from Betsy \$15, the difference between \$40 and the amount of principal and interest paid to Heinz.

Perkins Loan Quarterly Billing Example

(with four standard repayment dates)

Borrower's Termination Date	Initial 9-Month Grace Period Ends	Installment Due
January 1	September 30	January 1
February 1	October 31	"
March 1	November 30	"
April 1	December 31	April 1
May 1	January 31	"
June 1	February 28	"
July 1	March 31	July 1
August 1	April 30	"
September 1	May 31	"
October 1	June 30	October 1
November 1	July 31	"
December 1	August 31	"

ESTABLISHING REPAYMENT DATES

Use of fixed repayment dates

For collection and bookkeeping purposes, a fixed repayment date is preferred. Otherwise, if the borrower is entitled to a deferment, the school may have problems computing payments due.

Depending on the repayment schedule (monthly, bimonthly, or quarterly), the borrower's first payment is due one, two, or three months from the date the grace period expires. Repayment schedules must be adjusted (preferably on the first installment) so that the loan will be repaid within the normal 10-year period or as prescribed in the terms of the promissory note.

For convenience, a school may establish standard repayment dates for borrowers who are on quarterly repayment schedules. The first repayment date may be the first day of the calendar quarter after the grace period has expired. Four standard repayment dates would be used: January 1, April 1, July 1, and October 1. (See the chart above.)

Alternatively, a school may adopt a "rolling" quarterly repayment schedule in which each borrower's first payment is due exactly three months after the date his or her grace period expires. For example, if a borrower's first grace period expires on May 17, the first installment payment is due August 18. Another borrower's grace period expires May 18, so the first installment payment on that loan is due August 19.

Once the payment date is established, the borrower will owe principal and interest for any portion of a scheduled installment period not covered by a deferment. However, if the borrower is in deferment on a due date, any amounts owed are carried over and paid on the first due date on which the borrower is out of deferment.

Extending repayment period for illness, unemployment, or low income

A school may extend a repayment period if the borrower is experiencing a period of prolonged illness or unemployment.

A school may also extend the repayment period for a Perkins Loan if, during the repayment period, the school determines that the borrower qualifies as a *low-income individual* based on total family income (see sidebar).

In the case of low-income individuals, the repayment period may be extended up to 10 additional years. You must review the borrower's income status annually to determine whether he or she still qualifies as a low-income individual.

If you determine that a borrower ceases to qualify for an extended repayment period, you must amend the borrower's repayment schedule. The amended repayment schedule may not exceed the number of months remaining on the original repayment schedule (not including any extensions of the repayment period).

There are two other ways that a school may adjust the repayment schedule for a borrower who qualifies as a low-income individual:

- The school may require a borrower to pay a reduced amount for a limited time and then later increase the payment amount so the borrower catches up on payments. The repayment period does not have to be extended. For example, a school reduces the payment amount to \$10 per month for six months and then increases it to \$50 per month until the borrower catches up.
- The school may allow the borrower to pay \$10 per month for a year and then resume normal payments. This type of adjustment extends the repayment period.

Interest continues to accrue during an extension of a repayment period for any of these reasons.

Payment processing

Any payment a school receives must be applied in the following order:

- collection costs;
- late charges (or penalty charges);
- accrued interest; and
- principal

Past-due payments should be applied in the same order as other payments except that past-due payments must be applied to the "oldest" past-due dollars first.

Repayment period extension

34 CFR 674.33(c)

Low-income individual

The school must use the Income Protection Allowance (published annually by ED in the Federal Register, usually in May) to determine whether a student is a low-income individual.

Based on the most recent Income Protection Allowance tables (May 2011, applicable for 2012-2013)—

- an unmarried borrower without dependents qualifies as a *low-income individual* if his or her total income for the preceding calendar year did not exceed \$11,237.
- a borrower with a family that includes the borrower and any spouse or legal dependents qualifies as a *low-income individual* if his or her total family income for the preceding calendar year did not exceed the relevant amount below:

Family of 2	\$23,630
Family of 3	\$29,420
Family of 4	\$36,330
Family of 5	\$42,870
Family of 6	\$50,130

For each additional family member after six, add \$4,863.

FORBEARANCE

Forbearance

34 CFR 674.33(d)

The HEOA eliminates the requirement that a forbearance request be in writing.

HEOA 464

HEA 464(e)

Reduction of payments during hardship

34 CFR 674.33(b)(5) & (6)

Extension of repayment during hardship

34 CFR 674.33(c)(1)

Extension of repayment for low-income individuals

34 CFR 674.33(c)(2)

Paying interest during forbearance period

Unlike deferment, interest continues to accrue during any period of forbearance. The borrower may request to pay interest as it accrues during periods of forbearance, but the school *may not* require the borrower to do so.

Calculating equivalent monthly payment (hardship forbearance)

If the borrower's loan payments are due less frequently than monthly, a proportional share of the payments is used to determine the equivalent in total monthly payments. For example, if a payment is due quarterly, divide the amount by three (because the payment covers three months) to determine the equivalent monthly payment amount.

Forbearance is usually a temporary postponement of payments. Forbearance is available for all loans made under the Federal Perkins Loan Program, regardless of when they were made.

The borrower may alternatively request an extension of time allowed for making payments or the acceptance of smaller payments than were previously scheduled.

Schools may grant forbearance to borrowers who are experiencing financial hardship or poor health, or for other acceptable reasons. For example, the Department strongly encourages schools to grant periods of forbearance to borrowers who are serving in AmeriCorps. Also, the Department may authorize periods of forbearance due to a national military mobilization or other national emergency.

Borrowers must request forbearance and provide supporting documentation of the reason for forbearance. (Schools may now process forbearance requests based on a verbal request from a borrower.) The school and borrower must agree to the terms of the forbearance. The school confirms this agreement by notice to the borrower, and by recording the terms in the borrower's file.

Schools may grant the borrower forbearance for a period of up to one year at a time. The forbearance may be renewed, but the periods of forbearance collectively may not exceed a total of three years. A school may apply an authorized period of forbearance to begin retroactively (that is, to begin on an earlier date than the date of the borrower's request) if the borrower requests that the school do so and if he or she provides adequate documentation to support the request.

Schools may not include periods of forbearance in determining the 10-year repayment period.

Hardship

A school must grant forbearance if the total amount the borrower is obligated to pay monthly on all FSA loans is equal to or greater than 20% of the borrower's total monthly gross income. Total monthly gross income is the gross amount of income received by the borrower from employment (either full-time or part-time) and from other sources.

To receive forbearance for hardship, the borrower must submit at least the following documentation:

- evidence of the amount of the borrower's most recent total monthly gross income; and
- evidence of the amount of the monthly payments the borrower owes for the most recent month on his or her FSA loans.

DEFERMENT

Under certain circumstances, a borrower is entitled to have the repayment of a loan deferred. During deferment, the borrower is not required to pay loan principal and interest does not accrue. After each deferment, the borrower is entitled to a post-deferment grace period of six consecutive months.

In most cases, the borrower must request deferment *unless* the borrower is engaged in service that may qualify for loan cancellation or the school can determine that the borrower is enrolled at least half time at an eligible school. Borrowers are no longer required to request deferments in writing. However, a borrower who requests deferment must provide the school with all the information and documents the school requires by the school's deadline. Borrowers must immediately report any change in their deferment status to lending schools.

You may grant a deferment, at the borrower's request, based on information from the holder of an FSA loan that a borrower has been granted a deferment for the same reason and the same time period on the borrower's Perkins, Direct, or FFEL Stafford or PLUS Loan. (Holders of FSA loans include another Perkins school, an FFEL lender, the Department of Education, or a guaranty agency.) This simplified deferment granting process is optional, and only applies to in-school deferments, graduate fellowship deferments, rehabilitation training program deferments, unemployment deferments, economic hardship deferments, military service deferments, and active duty student deferments.

If a borrower is currently in deferment, the school must reaffirm continued eligibility for deferment on at least an annual basis (except for Peace Corps service—see sidebar). Schools may not include periods of deferment in the 10-year repayment period.

Concurrent deferment/cancellation

Schools must automatically defer loans during periods when the borrower is performing service that will qualify him or her for loan cancellation. Borrowers do not need to apply for concurrent deferment. Schools may grant concurrent deferment for up to 12 months at a time. Concurrent deferment is available to all loans made under the Federal Perkins Loan Program, regardless of disbursement date and contrary provisions on the promissory note.

A borrower who receives concurrent deferment is also entitled to a post-deferment grace period of six consecutive months. Therefore, regardless of the length of time that the eligible service is performed, repayment is deferred during that period of service and does not resume until six months after the cessation of service.

Deferments—Perkins regulations

§ 674.34 Deferment of repayment—Federal Perkins loans, NDSLs and Defense loans.

§ 674.35 Deferment of repayment—Federal Perkins loans made before July 1, 1993.

§ 674.36 Deferment of repayment—NDSLs made on or after October 1, 1980, but before July 1, 1993.

§ 674.37 Deferment of repayment—NDSLs made before October 1, 1980 and Defense loans.

§ 674.38 Deferment procedures.

Deferment forms

The Department does not approve or supply deferment forms, with the exception of the military deferment form.

The most recent request form for Military Service Deferment/Post-Active Duty Student Deferment form was disseminated with OMB Control Number 1845-0080 and an expiration date of 07/31/2013.

Postponement for loans made Prior to October 7, 1998

Prior to October 7, 1998, a borrower of a Perkins Loan, National Direct Student Loan (NDSL), or National Defense Student Loan (Defense Loan) made before July 1, 1993, could not receive a deferment during a period while he or she was performing a service that would subsequently qualify him or her for cancellation of all or a portion of the loan; rather, he or she could qualify for loan postponement. For information on postponement, see Chapter 6 of the *Federal Student Financial Aid Handbook, 1998–99*.

Concurrent deferment cites

34 CFR 674.34(c)

34 CFR 674.52(d)

Peace Corps deferment

If the borrower is currently in economic hardship deferment for service in the Peace Corps, the school may grant deferment for the full term of the borrower's service, not to exceed three years, or for the remaining period of economic hardship deferment eligibility, if it is less than the remaining period of service.

Deferments on defaulted loans

The policy permitting deferments on defaulted loans applies to all requests for deferment received after February 3, 1988, regardless of the date the loan was made.

Acceleration

Loan acceleration is one of the penalties a school may impose on a defaulted loan. A loan that has been accelerated becomes due and payable immediately in one lump sum.

Approval for graduate fellowship and rehabilitation training programs

The Department bases its approval of graduate fellowship and rehabilitation training programs on the requirements for the Federal Family Education Loan Program—see 34 CFR 682.210(d) and 34 CFR 682.210(e).

TIP

NEW- Enhanced Enrollment Reporting Process

Perkins schools can now receive student enrollment information through the NSLDS Enrollment Reporting Process.

Please refer to the NSLDS Reference Materials, Federal Perkins Technical Update dated 04-06-2012 at:

<http://ifap.ed.gov/ifap/byYear.jsp?type=nsldsmaterials&year=2012>

Borrowers and students may now also self-report their enrollment status by logging into the NSLDS student access website to inform NSLDS of their enrollment status.

Deferment and default

A borrower is not entitled to a deferment on a defaulted loan. If the borrower signs a new repayment agreement, however, a school may grant a deferment even if the school has “accelerated” the loan. The school would have to undo the loan acceleration before granting the deferment.

A borrower must file for deferment by a deadline the school sets and provide satisfactory documentation that he qualifies for the deferment.

Before granting a deferment on a defaulted loan, the school may require the borrower to pay immediately late fees, collection costs, and some or all of the amount past due as of the date on which the school determined that the borrower had demonstrated eligibility for a deferment. The Department encourages schools to require the borrower to do so, thus “curing” the default.

A school is not required to grant deferments on loans in default. However, if a school does so, it is expected to calculate past-due accrued interest. If a school believes this is too burdensome, it may deny deferments on defaulted loans.

Maintaining in-school enrollment status vs. in-school deferment

When a student borrower graduates or leaves school and subsequently reenrolls at another school before the initial grace period expires, he or she retains “in-school” enrollment status and does not “use up” the nine-month initial grace period. A borrower is entitled to a full initial grace period when he or she ceases half-time enrollment in the new program.

The borrower may submit proof at any time—even after a loan has been accelerated—that he or she reenrolled at least half time before the initial grace period expired. Upon receipt of this proof, *the school must recalculate the first date of repayment.* The school must also deduct from the loan balance any interest accrued and any late charges added before the date the repayment period actually should have begun. Note that the borrower remains responsible for payments that would have been due under the recalculated repayment period and that the school is not obligated to grant a deferment for any payments past due under that period.

If a Perkins borrower graduates or leave school and reenrolls at least half time in an eligible postsecondary school *after* the initial grace period has expired, the student is no longer in in-school enrollment status. However, the student may be eligible for an in-school *deferment* (see next page). Keep in mind that the grace period after a *deferment* is only six months.

Schools exercising the minimum monthly payment provision listed in the promissory note must cease doing so and grant a deferment to cover any period of qualifying service. The amount to be deferred and subsequently canceled must be calculated using the ten-year repayment period.

Deferments for All Perkins Loans

The deferments that follow are available to all loans made under the Federal Perkins Loan Program, regardless of disbursement date or contrary provisions in the promissory note.

In-school deferment

A borrower may defer repayment of a Perkins Loan if he or she is enrolled at least half time in an eligible school.

To receive an in-school deferment for a Perkins Loan, the borrower must be enrolled as a regular student in an eligible institution of higher education or a comparable institution outside the United States approved by the Department for deferment purposes. A regular student is one who is enrolled for the purpose of obtaining a degree or certificate. (The eligible institution need not participate in the Federal Perkins Loan Program.)

If the borrower is attending at least half time as a regular student for a full academic year and intends to do so in the next academic year, he or she is entitled to a deferment for **12 months**. This means that a school must continue to apply the in-school deferment through the summer session, even if the borrower does not attend classes during the summer session. In-school deferment ends on the day the borrower graduates or drops below half-time enrollment.

Schools may grant in-school deferments to borrowers based on student enrollment information provided by third-party servicers or other schools. The enrollment information must establish that the borrower is enrolled as a regular student on at least a half-time basis. If a school grants deferment based on this information, the school must notify the borrower of the deferment and offer the option to cancel the deferment and continue repayment of the loan.

If a borrower is attending a school that ceases to qualify as an institution of higher education, the borrower's deferment ends on the date the school ceases to qualify.

Except for a program in dentistry, an in-school deferment may not be granted to a borrower who is serving in a medical internship or residency program.

Graduate fellowship

A borrower may defer repayment if he or she is enrolled and in attendance as a regular student in a course of study that is part of a graduate fellowship program approved by the Department, including graduate or postgraduate fellowship-supported study (such as a Fulbright grant) outside the United States. To receive deferment for enrollment in a graduate fellowship program, the borrower must provide certification that he or she is engaged in full-time study in an approved graduate fellowship program (or has been accepted by the program).

34 CFR 674.34(f)

Deferments for All Perkins Loans (continued)

Rehabilitation training

A borrower may defer repayment if he or she is enrolled in a course of study that is part of a Department-approved rehabilitation training program for disabled individuals.

To receive this deferment, the borrower must provide the school with certification that:

- the borrower is receiving, or is scheduled to receive, rehabilitation training from the agency;
- the agency is licensed, approved, certified, or otherwise recognized by a state agency responsible for programs in vocational rehabilitation, drug abuse treatment, mental health services, or alcohol abuse treatment; or by the Department of Veterans Affairs; and
- the agency provides or will provide the borrower rehabilitation services under a written plan that (1) is individualized to meet the borrower's needs; (2) specifies the date that services will end; and (3) is structured in a way that requires substantial commitment from the borrower.

A substantial commitment from the borrower is a commitment of time and effort that would normally prevent the borrower from holding a full-time job either because of the number of hours that must be devoted to rehabilitation or because of the nature of the rehabilitation.

Seeking full-time employment

A borrower may defer repayment on a Perkins Loan for up to three years, regardless of disbursement date and contrary provisions on the promissory note, if the borrower is seeking and unable to find full-time employment. Schools may determine the documents the borrower must provide to apply for this deferment.

34 CFR 674.34(g)

Economic hardship

A borrower is entitled to an economic hardship deferment for periods of up to one year at a time, not to exceed three years cumulatively, if the borrower provides the school with satisfactory documentation showing that:

1. The borrower has been granted an economic hardship deferment for either a Stafford or PLUS Loan for the same period of time for which the Perkins Loan deferment has been requested.
2. The borrower is receiving federal or state general public assistance, such as Temporary Assistance to Needy Families, Supplemental Security Income, or Supplemental Nutrition Assistance Program (SNAP).
3. The borrower is working full-time* and is earning a total monthly gross income that does not exceed (1) the monthly earnings of someone earning the minimum wage, or (2) 150% of the poverty line** for the borrower's family size.***

Deferments for All Perkins Loans (continued)

4. The borrower is not receiving total monthly gross income that is more than twice the amount in (3) on the previous page and that income minus an amount equal to the borrower's monthly payments on federal postsecondary education loans does not exceed the amount specified in (3) on the previous page.

The borrower must submit at least the following documentation:***

- evidence showing the amount of the borrower's most recent total monthly gross income from all sources—that is, the gross amount of income the borrower received from employment (either full-time or part-time) and from other sources; and
- evidence showing the most recent monthly amount due on each of the borrower's federal postsecondary education loans, as determined by the method described below

If the repayment schedule for the loan is *ten years or less*, use the actual monthly payment amount. If the repayment schedule for the loan is *more than ten years*, use a monthly payment amount that would have been due for a ten-year repayment schedule. If the borrower's payments are due less frequently than monthly, use the payment amount that is proportional for a month.

5. The borrower is serving as a volunteer in the Peace Corps. Schools may grant deferments for Peace Corps service for periods longer than one year at a time, but these periods must not collectively exceed three years.

Note that the deferment provision for borrowers whose debt burden exceeds 20% of total monthly gross income has been eliminated.

* a borrower is considered to be working full-time if he or she is expected to be employed for at least three consecutive months for at least 30 hours per week.

** The poverty guidelines are published annually by the Department of Health and Human Services. If a borrower is not a resident of a state identified in the poverty guidelines, the poverty guideline to be used for the borrower is the poverty guideline (for the relevant family size) used for the 48 contiguous states.

***To qualify for a *subsequent* period of deferment that begins less than one year after the end of the deferment described in option three or four, the borrower must submit a copy of his or her federal income tax return if the borrower filed a tax return within the eight months preceding the date the deferment is requested.

34 CFR 674.34(e)

Deferments for All Perkins Loans (continued)

Determining maximum monthly gross income and 150% of poverty line (#3)

Monthly gross income at minimum wage

The current hourly minimum wage is available at www.dol.gov/dol/topic/wages/minimumwage.htm

To find monthly gross income, multiply the minimum wage by the typical work hours in a year, and then divide this amount by 12 months.

Determining 150% of the poverty line for the borrower's family size

Annual poverty line guidelines, as defined by Section 673(2) of the Community Service Block Grant Act, are available at <http://aspe.hhs.gov/poverty/poverty.shtml>

Note that an unborn child may be included if that child will be born during the year the borrower certifies family size or for the period the borrower requests an economic hardship deferment.

Military service deferment

A borrower who is serving on active duty in the U.S. armed forces or performing qualifying National Guard duty may defer repayment (principal or interest) on a Perkins Loan if the duty is in connection with a war, military operation, or national emergency.

The overall three-year limit for this deferment was eliminated in October of 2007, as was the provision that limited the availability of the deferment to loans first disbursed on or after July 1, 2001. A borrower may receive deferment for all eligible outstanding loans in repayment as of October 1, 2007. A borrower whose deferment eligibility had expired due to the prior three-year limitation and who was still serving on eligible active duty on or after October 1, 2007, may receive the deferment retroactively from the date the prior deferment expired until the end of the borrower's active duty service.

Effective October 1, 2007, the deferment is extended 180 days for qualifying periods of service that include October 1, 2007 or that begin on or after that date. This additional period is available each time a borrower is demobilized at the conclusion of qualifying service. This additional 180-day deferment may not be granted without documentation supporting the borrower's claim of end-of-military-service date.

A borrower may not be reimbursed for any payments made by or on behalf of a borrower during a period for which the borrower qualified for a deferment.

34 CFR 674.34(h)

Deferments for All Perkins Loans (continued)

13-month post-active duty deferment

Effective October 1, 2007, borrowers who are members of National Guard or Armed Forces Reserve, and members of the armed forces who are in retired status, are eligible for a 13-month period of deferment on repayment of their Perkins loans following the completion of their active duty military service if they were enrolled in a postsecondary school at the time of, or within six months prior to, their activation. Reserve or retired members of the Armed Forces may qualify for both the post-active duty deferment and for the military service deferment, and may receive both deferments if eligible. If a student receives both deferments, the overlapping periods of deferment will run concurrently.

A borrower returning from active duty who is in a grace period is not required to waive the grace period to use the 13-month post-active duty student deferment. If the borrower reenrolls in postsecondary school (at least half time) prior to the expiration of the 13-month period, the deferment ends on the date the student reenrolls.

Unlike the military service deferment described above, students receiving the active duty student deferment need not be activated in connection with a war, national emergency, or other military operation.

For purposes of the post-active duty student deferment, “active duty” has the same meaning as in Section 101(d)(1) of Title 10, United States Code, but does not include active duty for training or attendance at a service school/academy.

Members of the National Guard may qualify for this deferment for Title 32 full-time National Guard duty under which a governor is authorized, with the approval of the President or the U.S. Secretary of Defense, to order a member to state active duty and the activities of the National Guard are paid for by federal funds; or for state active duty under which a governor activates National Guard personnel based on state statute or policy, and the activities of the National Guard are paid for by state funds. Active duty does not include a borrower who is serving full-time in a permanent position with the National Guard, unless the borrower is reassigned as part of a call-up to active duty service.

34 CFR 674.34(i)

Definitions for purposes of military service deferments

Active duty means full-time duty in the active military service of the United States, except that it does not include active duty for training or attendance at a service academy.

Military operation means a contingency operation that is designated by the Secretary of Defense as an operation in which members of the armed forces are or may become involved in military actions, operations, or hostilities against an enemy of the U.S. or an opposing military force; or results in the call to or retention on active duty of members of the uniformed services.

National Guard duty means training or other duty, other than inactive duty, when called to active service authorized by the President of the United States or Secretary of Defense (and paid for with federal funds) for a period of more than 30 consecutive days in connection with a war, national emergency, or other military operation.

National emergency means a national emergency by reason of terrorist attacks as declared by the President on September 14, 2001, or subsequent national emergencies declared by the President by reason of terrorist attacks.

Deferments for Loans Made Before July 1, 1993

(34 CFR 674.35, 674.36, & 674.37)

The deferments in this section are only available for Perkins Loans made before July 1, 1993, and NDSLs made between October 1, 1980 and July 1, 1993. For information on deferment provisions exclusive to loans made before October 1, 1980, see the *1994–95 Federal Student Financial Aid Handbook* or 34 CFR 674.37.

Military and related service deferments

A borrower may defer repayment for up to 3 years, and interest will not accrue while he or she is:

- a member of the U.S. Army, Navy, Air Force, Marines, or Coast Guard;
- a member of the National Guard or the Reserves serving a period of full-time active duty in the Armed Forces;
- an officer in the Commissioned Corps of the U.S. Public Health Service;
- (for Perkins Loans made before July 1, 1993, only) on full-time active duty as a member of the National Oceanic and Atmospheric Administration Corps.

Parenting deferments (for Perkins Loans made before July 1, 1993, only)

A borrower may defer repayment (and interest will not accrue) during a period of up to one year if the borrower is a mother of a preschool-age child, provided the mother is working (or going back to work) at a salary that is no more than \$1.00 above the minimum hourly wage.

A borrower may also defer repayment for up to six months if the borrower is pregnant, or if he or she is taking care of a newborn or newly adopted child. This deferment is called a parental leave deferment. The borrower must be unemployed and not attending school and must apply for deferment within six months of leaving school or dropping below half-time status.

Hardship deferments

Loans disbursed before July 1, 1993, are eligible for an additional type of hardship deferment, which is *separate and different* from an *economic* hardship deferment.

A borrower may defer repayment for hardship, as determined by the school (for example, if the borrower is facing a prolonged period of illness or unemployment). A borrower may qualify for *unlimited* deferments due to hardship.

Interest will continue to accrue during the hardship deferment. Also, hardship deferments *do not* have post-deferment grace periods.

Deferments for Loans Made Before July 1, 1993 (continued)

Service as (or comparable to) Peace Corps/AmeriCorps*VISTA volunteer

A borrower may defer repayment for up to three years and interest will not accrue while he or she is a Peace Corps or AmeriCorps*VISTA (under Title I, Part A of the Domestic Volunteer Service Act of 1973) volunteer or providing comparable service. A borrower is considered to be providing service comparable to Peace Corps or AmeriCorps*VISTA service if he or she meets *all* of the following five criteria:

- The borrower serves in an organization that is exempt from taxation under the provisions of Section 501(c)(3) of the Internal Revenue Code of 1954;
- The borrower provides service to low-income persons and their communities to assist them in eliminating poverty and poverty-related human, social, and environmental conditions;
- The borrower does not receive compensation that exceeds the rate prescribed under Section 6 of the Fair Labor Standards Act of 1938 (the federal minimum wage), except that the tax-exempt organization may provide the volunteer with health, retirement, and other fringe benefits that are substantially equivalent to the benefits offered to other employees of the organization;
- The borrower, as part of his or her duties, does not give religious instruction, conduct worship service, engage in religious proselytizing, or engage in fund-raising to support religious activities; and
- The borrower has agreed to serve on a full-time basis for a term of at least one year.

Temporary total disability deferment

An affidavit from a qualified physician is required to prove disability. (A qualified physician is a doctor of medicine or osteopathy who is legally authorized to practice medicine.) A borrower is temporarily totally disabled if he or she is, due to illness or injury, unable to attend an eligible school or to be gainfully employed during a reasonable period of recovery.

A borrower may receive deferment for temporary total disability of a spouse or dependent if the spouse or dependent requires continuous nursing or other services from the borrower for a period of at least three months due to illness or injury.

The definition of dependent for temporary total disability deferment purposes is the same as the definition used in the *Free Application for Federal Student Aid* (FAFSA) for a member of the independent applicant's household: A borrower's dependent is a child who receives more than half of his or her financial support from the borrower or another person who lives with the borrower and who receives more than half of his or her financial support from the borrower.

Deferments for Loans Made Before July 1, 1993 (continued)

Internship/residency deferment

A borrower who is serving in a medical internship or residency program is not considered to be in school for deferment purposes and may not receive an in-school deferment on that Perkins Loan for the internship or residency program; however, the borrower is eligible for an *internship deferment* for up to two years.

While the borrower is serving an eligible internship, he or she may defer repayment for up to 2 years. Interest will not accrue during the internship deferment. An eligible internship is one that requires the borrower to hold at least a bachelor's degree before beginning the program.

The internship must also be *required by a state licensing agency* as a prerequisite for certification of the individual for professional practice or service. The borrower must provide the school certification from an official of the appropriate state licensing agency indicating that the successful completion of the internship is required by the state licensing agency as a prerequisite for certification for professional practice or service. The borrower must further provide a statement from the organization where the borrower will be an intern certifying:

- that applicants must hold a bachelor's degree to be admitted into the internship program;
- that the borrower has been accepted into the internship program; and
- the dates when the borrower is expected to begin and complete the program.

Borrowers of Perkins Loans made before July 1, 1993, may alternatively show that the internship or residency program *leads to a degree or certificate* awarded by an institution of higher education, a hospital, or a health care facility offering postgraduate training. The borrower must provide the school with a statement from an authorized official of the internship program certifying that:

- an individual must have a bachelor's degree to be admitted into the program;
- the borrower has been accepted into the program; and
- the internship or residency program leads to a degree or certificate awarded by an institution of higher education, a hospital, or a health care facility that offers postgraduate training.

Auditing Classes and Deferments

A Perkins borrower must be a "regular student" enrolled at least half time at an eligible school in order to qualify for an in-school deferment on a Perkins Loan.

Note that a FFEL or DL borrower who is not enrolled in an eligible program can still get an in-school deferment as long as he or she is enrolled at least half time at an eligible school.

Classes that a student is auditing may not be counted toward the student's enrollment status in determining whether the student is enrolled half time. For example, at a school where six credits is considered half time, a student who is enrolled in three credits for a grade and three credits as an audit would not be considered a half-time student for the purpose of an in-school deferment.

GENERAL CANCELLATION PROVISIONS

Application for cancellation

The following cancellation application procedures apply to any loan under this program.

The borrower applies for cancellation of his or her loan by obtaining the appropriate cancellation form from the business or student loan office of the school that made the loan (or from the school's billing service if it uses one). The borrower submits the form to the school, along with any supporting documentation the school requests, by the deadline the school establishes.

A school must determine, based on the borrower's documentation, whether the borrower is entitled to have any portion of his or her loans cancelled. **This responsibility cannot be delegated.** For information on documentation, see the appropriate cancellation category in this section.

Concurrent deferment

Schools must automatically defer loans during periods of service for which schools also grant loan cancellation. Borrowers do not need to apply for these automatic deferments.

ED reimbursement to school

If funds are appropriated, the Department will reimburse each school every award year for the principal and interest cancelled from its Perkins Loan Fund for all of the cancellation provisions except for death, total and permanent disability, bankruptcy, and closed school discharge. Note that no funds were appropriated this year for reimbursements for the 2010-12 award year (see the Electronic Announcement dated April 30, 2012).

If it receives reimbursement, a school must deposit the amount reimbursed in its Perkins Loan Fund. For more information and a full Q&A on reimbursing amounts cancelled, see Dear Colleague Letter CB-05-08.

Note that interest does not accrue on any loan during the period that a borrower is performing service to qualify for cancellation benefits.

Perkins Cancellation

34 CFR 674 Subpart D
34 CFR 674.51-62
Special definitions
34 CFR 674.51
Procedures
34 CFR 674.52

Reimbursements before July 1, 1972

Schools are not required to deposit reimbursements for loans made prior to July 1, 1972, into the Perkins Loan Fund. These reimbursements are considered institutional funds.

CANCELLATION RESTRICTIONS

Prior service and payments prior to cancellation

Schools may not cancel any portion of a loan for services the borrower performed either before the date the loan was disbursed or during the enrollment period covered by the loan.

Schools may not refund payments made during a period for which the borrower qualified for a cancellation, unless the borrower made the payment because of the school's error. To reduce the chance of error, a school should keep the borrower informed of any new cancellation benefits.

Cancellation restrictions

Prior service
34 CFR 674.62(a)
Payment refund
34 CFR 674.62(b)
Defaulted loans
34 CFR 674.52(c)
AmeriCorps
34 CFR 674.52(e)

Perkins cancellation extended to loans prior to 10-7-1998

The Higher Education Act was amended to extend all service cancellations to Perkins, NDSL, and Defense Loan borrowers who were previously ineligible. However, only periods of qualifying service performed on or after October 7, 1998, are eligible for cancellation benefits if the borrower was not previously eligible.

Defaulted loans

A school may cancel a defaulted loan if the only reason for the default was the borrower's failure to file a cancellation request on time. If the loan has already been **accelerated**, only eligible service performed **prior** to the date of acceleration can be considered for cancellation. A borrower is not entitled to cancellation for any eligible service performed **after** the date of acceleration.

AmeriCorps recipients

Schools may not grant cancellation of a Perkins Loan or National Direct Student Loan (NDSL) to a borrower who has received a national service education award for volunteer service with AmeriCorps (Subtitle D of Title I of the National and Community Service Act of 1990).

Cancellation Rates for Military, Teachers/Public Servants

With the exception of the early childhood education and volunteer service cancellations, the cancellation rate per completed year of qualifying full-time service is:

- First and second years: 15% of the original principal loan amount, plus the interest that accrued during the year.
- Third and fourth years: 20% of the original principal loan amount, plus the interest that accrued during the year.
- Fifth year: 30% of the original principal loan amount, plus any interest that accrued during the year.

A "year of service" consists of 12 consecutive months of service, except for teaching service, where the borrower must teach full-time for a full academic year or its equivalent. For cancellation rates for early childhood education and volunteer service, please see the corresponding sections in this chapter.

ELEMENTARY AND SECONDARY TEACHER CANCELLATION

Schools must cancel up to 100% of a Perkins Loan if the borrower has served full-time in a *public or nonprofit elementary or secondary school system* as:

- A teacher in a *low-income school* or a *low-income educational service agency*.
- A teacher in a *teacher shortage field*, including mathematics, science, foreign languages, or bilingual education or any other field of expertise that is determined by a state education agency to have a shortage of qualified teachers in that state.
- A *special-education* teacher, including teachers of infants, toddlers, children, or youth with disabilities.

The cancellation form that the borrower files must be signed by an official in the school system or agency to certify the borrower's service. Eligibility for teacher cancellation is based on the duties presented in an official position description, not on the position title. To receive a cancellation, the borrower must be *directly employed* by the school system.

To qualify for cancellation based on any of these three conditions, a borrower must teach full-time for a complete academic year or its equivalent. See the next page for exceptions covering special cases, such as illness or pregnancy.

Cancellation for teaching in a low-income school or educational service agency

A borrower qualifies for this cancellation by teaching full-time in a low-income public or other nonprofit elementary or secondary school, or by teaching full-time for an *educational service agency* (ESA) listed in the *Teacher Cancellation Low-Income Directory* (see sidebar).

For cancellation purposes, a borrower employed by an ESA may be teaching

- at a location operated by the ESA (such as a stand-alone school that serves students from many different school districts), or
- in a conventional elementary and secondary school (such as a vocational education teacher employed by the ESA to teach courses in several different secondary schools).

If a borrower is teaching at a school that is on the list one year but not in subsequent years, the borrower may continue to teach in that school and remain eligible to receive a cancellation for service in that school.

Teacher cancellation

34 CFR 674.53

Teacher definition 34 CFR 674.51(y)

Academic year definition 34 CFR 674.51(a)

Part-time 34 CFR 674.52(b)(1)(i)

Low-income schools 34 CFR 674.53(b)

Teaching children & adults 34 CFR 674.53(f)

Field of expertise 34 CFR 674.53(c)

Special education 34 CFR 653(b)

Teacher cancellation directory

You can identify schools and educational service agencies that are eligible for Perkins deferment and cancellation by searching the *Teacher Cancellation Low-Income Directory* online at: <https://www.tcli.ed.gov>

Information about the compilation and publication of the directory is available from the Campus-Based Call Center at:

1-877-801-7168 or by email at CBF0B@ed.gov.

Cancellations for teachers at educational service agencies

These cancellations are for Perkins, NDSL, or Defense loans, for eligible service that includes August 14, 2008, or begins on or after that date, regardless of whether the cancellation category appears on the borrower's promissory note.

HEA section 465(a)

Definition of *educational service agency*:

A regional public multi-service agency authorized by state law to develop, manage, and provide services or programs to local educational agencies as defined in section 9101 of the Elementary and Secondary Education Act of 1965, as amended.

HEA sections 481(e) and (f)

BIA schools

All elementary and secondary schools operated by the Bureau of Indian Affairs (BIA) are considered to qualify as schools serving low-income families for the purpose of teacher cancellations of Perkins Loans and NDSLs. Elementary and secondary schools operated on reservations by Indian tribal groups under contract with the BIA are also considered to qualify for this purpose.

34 CFR 674.53(a)(5)

Who is a Teacher?

A teacher is a person who provides students direct classroom teaching, classroom-type teaching in a non-classroom setting, or educational services directly related to classroom teaching (e.g., school librarian, guidance counselor).

It is not necessary for a teacher to be certified or licensed to receive cancellation benefits. However, the employing school must consider the borrower to be a full-time professional for the purposes of salary, tenure, retirement benefits, and so on. In other words, to qualify, the borrower should accrue the same benefits as teachers who are licensed and/or certified.

A supervisor, administrator, researcher, or curriculum specialist is not a teacher unless he or she primarily provides direct and personal educational services to students.

Under certain conditions, a teacher's aide may be considered eligible for teacher cancellation. The teacher's aide must meet the definition of a "full-time teacher." He or she must have a bachelor's degree and be a professional recognized by the state as a full-time employee rendering direct and personal services in carrying out the instructional program of an elementary or secondary school.

Volunteer teachers are not professionally employed on a full-time basis and, therefore, are not eligible for teacher cancellation benefits.

Teaching full-time for a full academic year

The borrower must teach full-time for a full academic year or its equivalent. There is no requirement that a teacher must teach a given number of hours a day to qualify as a full-time teacher; the employing school is responsible for determining whether or not the individual is considered to be a full-time teacher.

An "academic year or its equivalent" for teacher cancellation purposes is defined as one complete school year. Two half-years count as an academic year if they are complete, consecutive, from different school years (excluding summer session), and generally fall within a 12-month period.

A borrower who cannot complete the academic year because of illness or pregnancy may still qualify for cancellation if he or she has completed the first half of the academic year and has begun teaching the second half, but the borrower's employer must consider the borrower to have fulfilled his or her contract for the academic year.

Teaching part-time at multiple schools

Schools must grant cancellation to a borrower who is simultaneously teaching part-time in two or more schools *if* an official at one of the schools where the borrower taught certifies that the borrower taught full-time for a full academic year. For example:

- under a consortium agreement, a borrower may be employed by the consortium and teach at member schools;
- two or more schools, by mutual agreement, could arrange to have one school employ the borrower on a full-time basis and then hire out his or her services to the other school(s) involved in the agreement; or

- a borrower can be considered to have been a full-time teacher for an academic year if he or she can obtain appropriate certifications that he or she has taught in two half-time teaching positions for a complete academic year in two elementary or secondary schools or in two secondary schools.

A school may refuse cancellation for simultaneous teaching in two or more schools if it cannot easily determine that the teaching was full-time.

Teaching in a private school

A borrower may receive teacher cancellation for services performed in a private elementary or secondary school or academy, if the private school or academy has established its nonprofit status with the Internal Revenue Service (IRS) and if the school or academy is providing elementary or secondary education according to state law. The school or academy does not necessarily need to be accredited for a borrower teaching there to qualify for teacher cancellation.

Teaching in a school system

To be eligible for cancellation, a borrower employed in a public or other nonprofit elementary or secondary school system or an educational service agency must be directly employed by the school system.

Teaching in a preschool or prekindergarten program

A borrower may receive teacher cancellation for teaching service performed in a preschool or prekindergarten program if the state considers the program to be a part of its elementary education program. A low-income-school-directory designation that includes pre-kindergarten or kindergarten does not suffice for a state determination of program eligibility. The school must check with the state superintendent of public instruction to determine whether these programs are part of the state elementary education program.

Teaching both children and adults

If the borrower teaches both children and adults, the majority of students must be children for the borrower to qualify for cancellation.

Job Corps teachers

Teaching service performed in a Job Corps Project does not qualify for Perkins cancellation unless the teaching is conducted in an elementary or secondary school or school system.

How are low-income schools and ESAs selected?

The Department selects elementary/secondary schools and educational service agencies (ESAs) for inclusion in the *Teacher Cancellation Low-Income Directory*, in consultation with each state's educational agency, based on these criteria:

- the school or ESA is in a school district that qualifies for "Title I" federal funding based on the large number of low-income families in the district; and
- more than 30% of the school's or ESA's enrollment is made up of children from low-income families.

Teaching in a teacher shortage field by field of expertise

34 CFR 674.53(c)

Cancellation for teaching in a teacher shortage field

A school must cancel up to 100% of the outstanding balance on a borrower's Perkins loan for a full-time teacher in a field of expertise that is determined by a state education agency to have a shortage of qualified teachers in that state. A borrower who is teaching in science, mathematics, foreign language, or bilingual education qualifies for cancellation even if the state has not designated the subject area in which he or she is teaching as a shortage area.

For a borrower to be considered as teaching in a field of expertise that has a shortage of teachers, the majority of classes taught must be in that field of expertise.

Cancellation for teaching in special education

A school must cancel up to 100% of the outstanding balance on a borrower's Perkins loan for a full-time special education teacher of infants, toddlers, children, or youth with disabilities. The teaching service must be performed in a public or other nonprofit elementary or secondary school system.

A person performing one of the following services is considered a teacher if the service is part of the educational curriculum for handicapped children:

- speech and language pathology and audiology;
- physical therapy;
- occupational therapy;
- psychological and counseling services; or
- recreational therapy

To qualify for cancellation, the borrower must be licensed, certified, or registered by the appropriate state education agency for that area in which he or she is providing related special educational services.

Teaching in special education

34 CFR 674.53(b)

PUBLIC SERVICE CANCELLATIONS

Nurse or medical technician cancellation

Schools must cancel up to 100% of a Perkins Loan if the borrower has served full-time as a *nurse* or *medical technician* providing health care services. The borrower must provide health care services *directly* to patients.

For purposes of this cancellation—

- a *nurse* is a licensed practical nurse, a registered nurse, or other individual who is licensed by the appropriate state agency to provide nursing services.
- a *medical technician* is an allied health professional (working in fields such as therapy, dental hygiene, medical technology, or nutrition) who is certified, registered, or licensed by the appropriate state agency in the state in which he or she provides health care services; an allied health professional is someone who assists, facilitates, or complements the work of physicians and other specialists in the health care system. (See Dear Colleague Letter CB-08-14 for a more detailed discussion of the eligibility requirements for the medical technician cancellation.)

A school may refuse a request for cancellation based on a claim of simultaneous employment as a nurse or medical technician in two or more facilities if it cannot determine easily from the documentation supplied by the borrower that the combined employment is full-time. However, it shall grant the cancellation if one facility official certifies that a nurse or medical technician worked full-time for a full year.

Firefighter cancellation

A school must cancel up to 100% of the outstanding balance on a borrower's Perkins loan for service that includes August 14, 2008, or begins on or after that date, as a full-time *firefighter*.

A firefighter is an individual who is employed by a federal, state, or local fire fighting agency to extinguish destructive fires or provide fire fighting related services such as conducting search and rescue, providing hazardous materials (HAZMAT) mitigation, or providing community disaster support and, as a first responder, providing emergency medical services.

Cancellation cites

Definitions - 34 CFR 674.51

Employment cancellations - 34 CFR 674.56

- Nurse or medical technician (a)
- Child or family services agency (b)
- Early intervention (disability) services (c)
- Firefighter (d)
- Faculty at tribal college or university (e)
- Librarian with master's degree at Title I school (f)
- Speech pathologist with master's degree at Title I school (g)

Law enforcement 34 CFR 674.57

Early Childhood Education 34 CFR 674.58

Military service 34 CFR 674.59

Volunteer service 34 CFR 674.60

Cancellation reimbursement 34 CFR 674.63(b)

GEN-05-15

Sec. 465(a)(2)(I) of the HEA

Campus-Based E-Announcement 4-30-2012 at:

<http://ifap.ed.gov/eannouncements/043012FedPerkinsLoanServCancelReimbursement1011.html>

Firefighter cancellation

34 CFR 674.56(d)

Early Intervention Definitions

Infants and toddlers with disabilities

An individual under three years of age who needs early intervention services because the individual (1) is experiencing developmental delays, as measured by appropriate diagnostic instruments and procedures, in one or more of the areas of cognitive development, physical development, communication development, social or emotional development, and adaptive development; or (2) has a diagnosed physical or mental condition which has a high probability of resulting in developmental delay.

The term may also include, at a state's discretion, individuals under age three, who are at risk of having substantial developmental delays if early intervention services are not provided. (Section 632(5) (A) of the Individuals with Disabilities Education Act.)

Qualified professional provider of early intervention services

A provider of services, as defined in Section 632 of the Individuals with Disabilities Education Act. Section 632 of that act defines early intervention services as developmental services that:

- are provided under public supervision;
- are provided at no cost except where federal or state law provides for a system of payments by families, including a schedule of sliding fees;
- are designed to meet the developmental needs of an infant or toddler with a disability in one or more of the following areas: physical development, cognitive development, communication development, social or emotional development, or adaptive development;
- meet the standards of the state in which they are provided;
- are provided by qualified personnel, including—special educators; speech and language pathologists and audiologists; occupational therapists; physical therapists; psychologists; social workers; nurses; nutritionists; family therapists; orientation and mobility specialists; and pediatricians and other physicians;
- to the maximum extent appropriate, are provided in natural environments, including the home, and community settings in which children without disabilities participate; and
- are provided in conformity with an individualized family service plan adopted in accordance with Section 636 of the Individuals with Disabilities Education Act.

Under the Individuals with Disabilities Education Act, early intervention services include—family training, counseling, and home visits; special instruction; speech-language pathology and audiology services; occupational therapy; physical therapy; psychological services; service coordination services; medical services only for diagnostic or evaluation purposes; early identification, screening, and assessment services; health services necessary to enable the infant or toddler to benefit from the other early intervention services; social work services; vision services; assistive technology devices and services; and transportation and related costs necessary to enable infants, toddlers, and their families to receive other services identified in Section 632(4).

Early intervention (for disabled infants/toddlers) cancellation

Schools must cancel up to 100% of the outstanding balance on a Perkins Loan if the borrower has been employed full-time as a *qualified professional provider of early intervention services* in a public or other non-profit program. “Early intervention services” are provided to infants and toddlers with disabilities.

This cancellation applies to Perkins loans made on or after July 23, 1992. Perkins loans made prior to that date are eligible for cancellation for early intervention service that is performed on or after October 7, 1998.

Child or family services cancellation

A school must cancel up to 100% of the outstanding balance on a Perkins Loan made on or after July 23, 1992, for service as a full-time employee in a public or private nonprofit child or family service agency. To qualify for cancellation, the borrower must be providing services directly and exclusively to *high-risk children* from *low-income communities* and to the families of these children, or supervising the provision of such services. Any services provided to the children’s families must be secondary to the services provided to the children.

For purposes of this cancellation—

- *high-risk children* are defined as individuals under the age of 21 who are low-income or at risk of abuse or neglect; have been abused or neglected; have serious emotional, mental, or behavioral disturbances; reside in placements outside their homes; or are involved in the juvenile justice system.
- *low-income communities* are communities in which there is a high concentration of children eligible to be counted under Title I rules (see sidebar on next page).

The types of services a borrower may provide to qualify for a child or family service cancellation include child care and child development services; health, mental health, and psychological services; and social services. The Department has determined that an elementary or secondary school system, a hospital, or an institution of higher education is not an eligible employing agency. When reviewing child or family service cancellation requests, Perkins schools and their servicers should refer to Dear Colleague Letter GEN-5-15, which provides a more detailed discussion of the eligibility requirements for child or family service cancellations.

Early intervention cancellation

34 CFR 674.56(c)

Child or family services cancellation

34 CFR 674.56(b)

Cancellation Rates

With the exception of cancellations for Head Start, military, and volunteer service, the cancellation rate per completed academic year of full-time teaching or for each year of otherwise qualifying full-time service is:

- 15% of the original principal loan amount—plus the interest that accrued during the year—for each of the first and second years;
- 20% of the original principal loan amount—plus the interest that accrued during the year—for each of the third and fourth years; and
- 30% of the original principal loan amount—plus any interest that accrued during the year—for the fifth year.

A year of service consists of 12 consecutive months of service.

Speech pathologist cancellation

34 CFR 674.56(g)

Title I schools

Part A of Title I of the Elementary and Secondary Education Act of 1965, as amended, provides funding for schools with high numbers or high percentages of poor children. Elementary and Secondary Education Act See 20 U.S.C. 70

Librarian cancellation

34 CFR 674.56(f)

Tribal college or university

An institution that —

1. Qualifies for funding under the Tribally Controlled Colleges and Universities Assistance Act of 1978 (25 U.S.C. 1801 et seq.) or the Navajo Community College Assistance Act of 1978 (25 U.S.C. 640a note); or
2. Is cited in section 532 of the Equity in Education Land Grant Status Act of 1994 (7 U.S.C. 301 note).
34 CFR 674.51(bb)

The Department of Education maintains a list of tribal colleges and universities at:

<http://www2.ed.gov/about/inits/list/whetc/edlite-tclist.html#list>

Speech pathologist (at Title I school) cancellation

A school must cancel up to 100% of the outstanding balance on a borrower's Perkins Loan for full-time employment that includes August 14, 2008, or begins on or after that date, as a speech pathologist. A speech pathologist is someone who evaluates or treats disorders that affect a person's speech; language; cognition; voice; swallowing and the rehabilitative or corrective treatment of physical or cognitive deficits/disorders resulting in difficulty with communication, swallowing or both; and who has obtained a postgraduate academic degree awarded after the completion of an academic program of up to six years in duration (excluding a doctorate or professional degree).

To qualify for cancellation, the speech pathologist must have a master's degree and be working exclusively with Title I-eligible schools.

Librarian (at Title I school) cancellation

A school must cancel up to 100% of the outstanding Perkins balance for service that includes August 14, 2008, or begins on or after that date, as a full-time librarian.

The librarian must have a master's degree. A *librarian with a master's degree* is defined as an information professional trained in library or information science who has obtained a postgraduate academic degree in library science awarded after the completion of an academic program of up to 6 years in duration (excluding a doctorate or professional degree).

The librarian must be employed

- in an elementary school or secondary school that is eligible for Title I assistance (see sidebar), or
- by a public library that serves a local school district that contains one or more Title I-eligible schools.

LAW ENFORCEMENT AND PUBLIC DEFENDER CANCELLATIONS

Law enforcement or corrections officer cancellation

A school must cancel up to 100% of a Perkins Loan made on or after November 29, 1990, if the borrower performs full-time service for 12 consecutive months as a law enforcement or corrections officer for an eligible employing agency.

To establish the eligibility of a borrower for the law enforcement or corrections officer cancellation provision, the school must determine that (1) the borrower's employing agency is eligible and that (2) the borrower's position is essential to the agency's primary mission.

A local, state, or federal agency is an eligible employing agency if it is publicly funded and its activities pertain to crime prevention, control, or reduction, or to the enforcement of the criminal law. Such activities include, but are not limited to—

- police efforts to prevent, control, or reduce crime or to apprehend criminals;
- activities of courts and related agencies having criminal jurisdiction;
- activities of corrections, probation, or parole authorities; and
- the prevention, control, or reduction of juvenile delinquency or narcotic addiction.

Agencies that are primarily responsible for enforcement of civil, regulatory, or administrative laws are ineligible. However, because the activities of many divisions and bureaus within local, state, and federal agencies pertain to crime prevention, control, or reduction, or to the enforcement of criminal law, a sub-unit within a larger, non-law enforcement agency may qualify as a law enforcement agency for purposes of a law enforcement cancellation.

For the borrower's position to be considered essential to the agency's primary mission, he or she must be a full-time employee of an eligible agency and a sworn law enforcement or corrections officer or person whose principal responsibilities are unique to the criminal justice system and are essential in the performance of the agency's primary mission. The agency must be able to document the employee's functions. Examples of positions that are considered essential to a law enforcement agency's primary mission and that are unique to the criminal justice system include prosecuting attorneys whose primary responsibilities are to prosecute criminal cases on behalf of law enforcement agencies, forensic scientists, and latent fingerprint examiners."

Individuals whose official responsibilities are supportive, such as those that involve typing; filing; accounting; office procedures; purchasing; stock control; food service; transportation; or building, equipment, or grounds maintenance are not eligible for the law enforcement or correction officer loan cancellation, regardless of where these functions are performed.

Law enforcement/corrections cancellation

34 CFR 674.57(a)

Law enforcement cancellation for loans prior to November 29, 1990

A school must cancel up to 100% of the outstanding loan balance on a Perkins (or NDSL or Defense loan) made prior to November 29, 1990, for law enforcement or correction officer service performed on or after October 7, 1998, if the cancellation benefits provided under this section are not included in the terms of the borrower's promissory note. The service must be full-time, and be performed over 12 consecutive months.

Public defender cancellation

34 CFR 674.57(b)

Eligible public/community defender organizations

34 CFR 674.51(e)

Section 3006A(g)(2) of Title 18, U.S.C.

Military service cancellation

34 CFR 674.59

Change to military service cancellation limitation

Effective for a full year of qualifying service that includes August 14, 2008, or begins after that date, borrowers may now receive military service cancellation of up to 100% of the loan.

Military cancellations for earlier loans

- A school must cancel up to 50% of a Defense loan made after April 13, 1970, for the borrower's full-time active service starting after June 30, 1970, in the U.S. armed forces.
- A school must cancel up to 50% of the outstanding balance on a Perkins/NDSL Loan for active duty service that ended before August 14, 2008, as a member of the U.S. armed forces in an area of hostilities that qualifies for special pay under section 310 of title 37 of the United States Code (see below).

The cancellation rate is 12.5% of the original loan principal, plus the interest on the unpaid balance accruing during the year of qualifying service, for each complete year of qualifying service.

Special pay in areas of hostilities/imminent danger

The Department of Defense maintains an updated listing of hostile fire/imminent danger pay areas at the following URL:

http://comptroller.defense.gov/fmr/07a/07a_10.pdf

Prior to Dec. 31, 2011, members eligible for IDP were paid the full monthly rate for any complete or partial month they served in a qualifying area. The 2012 National Defense Authorization Act modified IDP payments, limiting eligibility to only the actual days served in a qualifying area. The monthly rate is paid to members who serve an entire calendar month in an IDP area regardless of the number of individual days in that month. See the Defense Finance and Accounting website at:

http://www.dfas.mil/militarymembers/payentitlements/specialpay/hfp_idp.html.

Public defender cancellation

Full-time attorneys employed in *federal public defender organizations* or *community defender organizations* (see sidebar), are eligible for public defender cancellations.

For purposes of this cancellation

- a *community defender organization* is a defender organization established in accordance with section 3006A(g)(2)(B) of Title 18, United States Code.
- a *federal public defender organization* is a defender organization established in accordance with section 3006A(g)(2)(A) of Title 18, United States Code.

Cancellations are for eligible service that includes August 14, 2008, or begins on or after that date, regardless of whether information on the expansion of this cancellation category appears on the borrower's promissory note.

MILITARY SERVICE CANCELLATION

A school must cancel up to 100% of the outstanding balance of a Perkins loan for a full year of active duty service in the U.S. armed forces in an *area of hostilities* or an *area of imminent danger* that qualifies for special pay (see sidebar). The "U.S. armed forces" are the United States Army, Navy, Air Force, Marine Corps, or Coast Guard.

The borrower's commanding officer must certify the borrower's service dates. Active duty service for less than a complete year or a fraction of a year beyond a complete year does not qualify. A complete year of service is 12 consecutive months.

Areas that qualify for hostile fire/imminent danger pay are listed on the Web (see sidebar). Note that the borrower does not have to serve the full 12 months of active duty service in such an area to qualify for the cancellation. If a borrower is on active duty in such an area for any part of a month, that month counts towards the borrower's eligibility for a military cancellation.

The cancellation rate is the standard progression for up to 100% cancellation: 15% for the first and second year of qualifying service, 20% for the third and fourth year of qualifying service, and 30% for the fifth year of qualifying service.

EARLY CHILDHOOD EDUCATION CANCELLATION (PRE-KINDERGARTEN, CHILD CARE, HEAD START)

A school must cancel up to 100% of a Perkins Loan if the borrower has served

- as a *full-time staff member* in a *Head Start* program.
- as a *full-time staff member* of a *prekindergarten* or *child care program* that is licensed or regulated by the state.

For purposes of these early education cancellations

- “Head Start” is a preschool program carried out under the Head Start Act (subchapter B, chapter 8 of Title VI of Pub. L. 97–35, the Budget Reconciliation Act of 1981, as amended; formerly authorized under section 222(a)(1) of the Economic Opportunity Act of 1964). (42 U.S.C. 2809(a)(1))
- A *pre-kindergarten program* is a state-funded program that serves children from birth through age six and addresses the children’s cognitive (including language, early literacy, and early mathematics), social, emotional, and physical development.
- A *child care program* is a program that is licensed or regulated by the state and provides child care services for fewer than 24 hours per day per child, unless care in excess of 24 consecutive hours is needed due to the nature of the parents’ work.
- A *full-time staff member* is someone who is regularly employed in a full-time professional capacity to carry out the educational part of the early education program.

For the pre-kindergarten and child care program cancellation, the period of service must include August 14, 2008, or begin on or after that date.

In order to qualify for cancellation, the early education program in which the borrower serves must operate for a complete academic year, or its equivalent. The borrower’s salary may not exceed the salary of a comparable employee working in the local educational agency of the area served by the early education program.

The cancellation rate is 15% of the original loan principal, plus the interest on the unpaid balance accruing during the year of qualifying service, for each complete academic year, or its equivalent, of full-time teaching service.

An official of the early education program should sign the borrower’s cancellation form to certify the borrower’s service.

Early childhood cancellation

34 CFR 674.58

Early education cancellations for Defense loans

Head Start. An institution must cancel up to 100% of the outstanding balance on a Defense loan for service as a full-time staff member in a Head Start program performed on or after October 7, 1998, if the cancellation benefits provided under this section are not included in the terms of the borrower’s promissory note.

VOLUNTEER SERVICE CANCELLATION

Early childhood cancellation

34 CFR 674.60

Schools must cancel up to 70% of a Perkins Loan if the borrower has served as a Peace Corps or AmeriCorps*VISTA (under Title I, Part A of the Domestic Volunteer Service Act of 1973) volunteer. An authorized official of the Peace Corps or AmeriCorps*VISTA program must sign the borrower's cancellation form to certify the borrower's service.

AmeriCorps volunteers do not qualify for this cancellation unless their volunteer service is with AmeriCorps*VISTA. An AmeriCorps*VISTA volunteer may only qualify for this cancellation if the AmeriCorps*VISTA volunteer elects not to receive a national service education award for his or her volunteer service. The AmeriCorps*VISTA volunteer must provide appropriate documentation showing that the volunteer has declined the AmeriCorps national service education award.

Schools apply cancellation for volunteer service in the following increments:

- 15% of the original principal loan amount—plus any interest that accrued during the year—for each of the first and second 12-month periods of service; and
- 20% of the original principal loan amount—plus any interest that accrued during the year—for each of the third and fourth 12-month periods of service.

For Peace Corps Volunteers, the 12-month periods of service include any pre-enrollment training the Volunteer receives at the Peace Corps Post.

DISCHARGING PERKINS LOANS

Discharge due to death

You must discharge the remaining balance of any Perkins Loan, NDSL, or Defense Loan if the borrower dies. You must base your determination of death of the borrower on an original or certified copy of the death certificate or an accurate and complete photocopy of the death certificate.

In most cases, the school should try to obtain a copy of the death certificate from the borrower's next of kin. If the school is unable to obtain a copy from the next of kin, it may be able to obtain a copy from the state vital statistics office.

Under exceptional circumstances and on a case-by-case basis, your school's chief financial officer may approve a discharge based upon other reliable documentation supporting the discharge request.

Discharge for total and permanent disability (nonveterans)

If a borrower becomes totally and permanently disabled, he or she must submit a discharge request application certified by a physician who is a doctor of medicine or osteopathy legally authorized to practice in a state. By signing the discharge application, the physician certifies that the borrower is totally and permanently disabled, as defined in the Perkins Loan Program regulations (see sidebar).

The borrower must submit the application to your school within 90 days of the date the physician signed it. The 90-day submission deadline applies to the initial discharge application. The deadline does not apply to requests that your school may make for additional supporting documentation, based on its evaluation of the initial application.

Upon receiving the borrower's complete application, the school must suspend collection activity on the loan and inform the borrower that the school will review the application and assign the loan to the Department for an eligibility determination if it determines that the application supports the conditions for discharge. If the school determines that the application does not support the conditions for discharge, it must resume collection on the loan.

The school must inform the borrower of the responsibility to return any disbursement of a previously-awarded FSA loan or TEACH Grant that the student receives after the date the physician certified the application. The full amount of the disbursement must be returned to the Department within 120 days of the disbursement date. Failure to do so will cause the loan to be reinstated.

Total and permanent disability loan discharge

34 CFR 674.61

GEN 06-14

Definitions of "totally and permanently disabled"

E-Announcements

June 30, 2010, September 10, 2010.

Schools must evaluate all discharge applications received on or after July 1, 2010, in accordance with the revised definition of total and permanent disability (below).

Total and permanent disability is defined as: The condition of an individual who—

(1) Is unable to engage in any *substantial gainful activity** by reason of any medically determinable physical or mental impairment that—

- (i) Can be expected to result in death;
- (ii) Has lasted for a continuous period of not less than 60 months; or
- (iii) Can be expected to last for a continuous period of not less than 60 months; or

(2) Has been determined by the Secretary of Veterans Affairs to be unemployable due to a service-connected disability.

34 CFR 674.51(aa)

* *Substantial gainful activity* is defined as "a level of work performed for pay or profit that involves doing significant physical or mental activities, or a combination of both."

34 CFR 674.51

Disability discharge application

The Department released a PDF version of the revised discharge application for Total and Permanent Disability on August 16, 2010 (GEN-10-15).

Disability discharge servicers

Electronic Announcement Posted: September 10, 2010; Updated May 27, 2011.

All disability discharge assignments/referrals must be sent to Nelnet Total and Permanent Disability Servicer at:

U.S. Department of Education
3015 South Parker Road, Suite 400
Attn: TPD Servicing
Aurora, CO 80014
Phone: 888/303-7818
Website: www.disabilitydischarge.com

The school must also inform the borrower that the loan will be reinstated if, within three years of the date the discharge application was certified, the borrower

- has annual earnings from employment that exceed 100% of the poverty guideline for a family of two.
- receives a new TEACH Grant or a new loan under the Perkins or Direct Loan programs, except for a Direct Consolidation Loan that includes loans that were not discharged.

If your school determines, based on certification from the borrower's physician, that the borrower is totally and permanently disabled, it must assign the account to the Department (see sidebar for ED servicers). At that time, it must notify the borrower that it has assigned the account to the Department for determination of eligibility for a total and permanent disability discharge and that no payments are due on the loan.

During its review of the application, the Department may ask the borrower to provide additional medical evidence and may arrange for an additional review of the borrower's condition by an independent physician at no expense to the borrower.

- If the Department concludes that the borrower is totally and permanently disabled, it will discharge the loan and notify the borrower.
- If the Department concludes that the certification provided by the borrower does not establish that the borrower is totally and permanently disabled, the Department will notify the borrower that the discharge application has been denied and that the loan must be repaid to the Department under the terms of the promissory note.

If your school receives payments from a borrower after the physician certifies the borrower's loan discharge application, you must forward these payments to the Department and notify the borrower that there is no need to make payments on the loan while the discharge application is under review unless the Department informs the borrower otherwise.

Discharge for service-connected disability (veterans)

A veteran's Perkins Loan will be discharged if the veteran is unemployable due to a service-connected disability, as determined by the Department of Veterans Affairs (VA). To qualify for discharge of a Perkins loan based on a disability determination by the VA, a veteran must submit a completed copy of the ED-approved discharge application to the school that holds the loan.

The application does not need to be certified by a physician. Instead, the veteran must include documentation from the VA showing that the veteran is unemployable due to a service-connected disability. The veteran will not be required to provide any additional documentation related to his or her disability.

When it receives the completed application and the required documentation, the school must suspend collection activity on the loan and inform the veteran that the school will review the application and supporting documentation and—

- if the documentation from the Department of Veterans Affairs indicates that the veteran meets the conditions for a service-related disability discharge, the school will submit the application and supporting documentation to the Department's servicer for an eligibility determination.
- if the documentation from the Department of Veterans Affairs does not indicate that the veteran meets the conditions for the discharge, the school will resume collection on the loan.

The school must also inform the veteran that even if he or she does not qualify for a service-connected disability discharge, the veteran may reapply for a disability discharge if he or she meets the general definition of "totally and permanently disabled" (see previous topic).

The Department of Education will notify the school of its determination of the veteran's eligibility for the discharge. If the Department concludes that the veteran is eligible for the discharge, the school must discharge the veteran's obligation to make further payments on the loan. The school must also return any loan payments received on or after the effective date of the determination by the Department of Veterans Affairs that the veteran is unemployable due to a service-connected disability. (Any such loan payments must be returned to the person who made them.)

However, if the school or the Department of Education determines, based on a review of the documentation, that the veteran is not totally and permanently disabled, the school must resume collection on the loan.

Closed school discharge

Closed schools

You can find a searchable database of closed schools online at

<http://wdcrobcolp01.ed.gov/CFAPPS/FSA/closedschool/searchpage.cfm>.

Closed school discharge cite
34 CFR 674.33(g)

Your school must assign to Federal Student Aid (FSA) Collections all its outstanding Perkins and NDSL loans if it is closing.

FSA Collections may discharge a Perkins Loan or NDSL made on or after January 1, 1986, if the borrower is unable to complete his or her program of study due to the closure of the school. FSA Collections must reimburse borrowers for payments made voluntarily or by forced collection.

A borrower whose loan was in default and then discharged under this provision is not considered to have been in default and reestablishes FSA eligibility, provided he or she meets all other eligibility criteria. FSA Collections reports the discharge to the credit bureaus to which the previous loan status was reported.

ED may cancel a Perkins loan when a borrowers other Title IV loans have been cancelled

34 CFR 674.33(g)(3)

Note: A borrower is also eligible for a closed school discharge if the borrower withdrew from the school not more than 90 days before the school closed (or longer in exceptional circumstances).

Right of recovery from third parties

34 CFR 674.33(g)(7)

Discharge procedures

34 CFR 674.33(g)(8)

Determining borrower qualification for discharge

34 CFR 674.33(g)(4)

Discharge not available for fraudulently obtained loans

34 CFR 674.33(g)(5)

Borrower must cooperate in enforcement actions on discharged loans

34 CFR 674.33(g)(6)

Discharge for spouses of 9-11 victims

Schools must discharge the outstanding balance of a Perkins Loan that was made to the spouse of an eligible public servant who died or became permanently and totally disabled due to injuries suffered in the September 11, 2001 terrorist attacks. An eligible public servant is a police officer, firefighter, or other safety or rescue personnel, or a member of the armed forces, who died or became permanently and totally disabled due to injuries suffered in the September 11, 2001 terrorist attacks. This discharge is only available on Perkins, NDSL, or Defense Loan amounts that were owed on September 11, 2001. The law doesn't authorize refunding of any payments made on a loan prior to the loan discharge date.

Bankruptcy discharge

The basic actions a school must take when a borrower files for bankruptcy protection are covered here, in Dear Colleague Letter GEN-95-40 (dated September 1995), and in 34 CFR 674.49. For the best advice on how to proceed when a borrower files for bankruptcy protection, a school should consult its attorney. The school should ensure that the attorney is aware of the due diligence provisions that apply to school actions.

If a school receives notice that a borrower has filed for bankruptcy protection, it must immediately stop collection efforts (outside the bankruptcy proceeding itself). If the borrower has filed under Chapter 12 or 13 of the Bankruptcy Code, the school must also suspend collection efforts against any endorser.

The school must file a proof of claim in the bankruptcy proceeding unless, in the case of a proceeding under Chapter 7 of the Bankruptcy Code, the notice of meeting of creditors states the borrower has no assets.

Effective for bankruptcies filed on or after October 8, 1998, a borrower who receives a general discharge in bankruptcy does not, by that order, obtain a discharge of a loan that has been in repayment for seven years or more at the time of the bankruptcy filing. For these bankruptcies, a student loan is discharged by a general discharge order only if the borrower also obtains a court ruling that repayment of the loan would impose an undue hardship on the borrower and his or her dependents.

Resuming/terminating billing and collection

A school must resume billing and collection procedures after the borrower has received a discharge under 11 U.S.C. 727, 11 U.S.C. 1141, 11 U.S.C. 1228, 11 U.S.C. 1328(a), or U.S.C. 1328(b) unless the court has found that repayment would impose an undue hardship. If the court has found that repayment would impose an undue hardship, the school must terminate all collection action and write off the loan. If a school receives a repayment from a borrower after a loan has been discharged, it must deposit that payment in its Perkins Loan Fund.

Bankruptcy laws

11 U.S.C. 1307, 1325, and 1328(b) are laws applicable to bankruptcy cases in general, not just to Perkins Loan bankruptcy cases.

11 U.S.C. 1307 concerns the dismissal of a Chapter 13 case or the conversion of a case filed under Chapter 13 to a Chapter 7 proceeding.

11 U.S.C. 1325 concerns the confirmation by the court of a borrower's proposed repayment plan.

11 U.S.C. 1328(b) allows a debtor who fails to complete the payments required under the plan to obtain a discharge if conditions are met. A school should consult an attorney for the best advice in bankruptcy cases.

Bankruptcy and student eligibility

See Volume 1 for a discussion of how bankruptcy affects a student's eligibility for aid.

Bankruptcies filed before October 8, 1998

See previous editions of the *FSA Handbook* for discussion of bankruptcies filed before October 8, 1998.

Chapter 13 bankruptcies

34 CFR 674.49(e)

Resuming billing and collection

34 CFR 674.49(f)

Bankruptcy Procedures

Responding to complaint for determination of dischargeability

Customarily, a borrower obtains a judicial ruling of undue hardship by filing an adversary proceeding—a lawsuit within the bankruptcy proceeding—in the bankruptcy court seeking to prove undue hardship. If a borrower files an adversary proceeding to prove undue hardship under 11 U.S.C. 523(a) (8), the school must decide, on the basis of reasonably available information, whether repayment under the current repayment schedule or under any adjusted schedule would impose undue hardship on the borrower and his or her dependents.

If the school concludes that repayment would not impose an undue hardship, the school must then decide whether the expected costs of opposing the discharge would exceed one-third of the total amount owed on the loan (principal, interest, late charges, and collection costs). If the expected costs do not exceed one-third of the total amount owed on the loan, the school must oppose the discharge and, if the borrower is in default, seek a judgment for the amount owed. If necessary, the school may compromise a portion of that amount to obtain a judgment.

If the school opposes a request for determination of dischargeability on the ground of undue hardship, a school may also file a complaint with the court to obtain a determination that the loan is not dischargeable and to obtain a judgment on the loan.

Schools that are state instrumentalities may, as an alternative, oppose an undue hardship claim by asserting their immunity from suit in bankruptcy. As with any other action in defending student loans in bankruptcy, the school should consult with counsel and should ensure that counsel is fully informed about recent changes in Department regulations to support this position.

Procedures for responding to proposed Chapter 13 repayment plan

Under Chapter 13, the borrower may generally obtain an adjustment in repayment terms of all of his/her debts. The borrower proposes a repayment plan that addresses whether and how each debt or class of debts will be paid. If the court approves the plan, creditors are bound to the terms of that plan for duration of the plan, typically three to five years. If the borrower's repayment plan proposes full repayment of the Perkins Loan, including all principal, interest, late charges, and collection costs on the loan, no response from the school is required. The school is also not required to respond to a proposed repayment plan that does not include any provision in regard to the Perkins Loan obligation or to general unsecured claims.

If the borrower proposes to repay less than the total amount owed and that the remainder be discharged, the school must determine, from its own records and court documents, the amount of the loan dischargeable under the plan. The school does this by subtracting the total proposed payments from the total amount owed. The school must also determine from its own records and court documents whether the borrower's proposed repayment plan meets the requirements of 11 U.S.C. 1325.

Bankruptcy Procedures, continued

Two of those requirements are particularly relevant:

- First, the amount to be paid under the plan must at least equal the amount the school would receive if the debtor had filed under Chapter 7 rather than under Chapter 13.
- Second, to pay creditors under the plan, the debtor must use all income not needed to support himself or herself and his or her dependents.

If the borrower's proposed repayment plan does not meet the requirements of 11 U.S.C. 1325, the school must object to the confirmation by the court of the proposed plan, unless the cost of this action will exceed one-third of the dischargeable loan debt; if the cost will exceed one-third of the dischargeable debt, the school is not required to take this action.

Also, when a borrower proposes to repay less than the total amount owed, the school must determine whether grounds exist under 11 U.S.C. 1307 for the school to move to have the Chapter 13 case either dismissed or converted to a Chapter 7 proceeding. Such grounds include a borrower's failure to (1) begin payments under the plan within the required time (usually 30 days from the date the plan is filed), (2) file a proposed plan in a timely manner, or (3) pay required court fees and charges.

If the school determines that such grounds do exist, the school must move to dismiss or convert the Chapter 13 case to a Chapter 7 proceeding, unless the cost of this action will exceed one-third of the dischargeable loan debt.

After a borrower's proposed repayment plan is confirmed by the court, the school must monitor the borrower's compliance with the repayment plan. If the school determines from its own records or court documents that the borrower either has not made the payments required under the plan or has filed for a hardship discharge under 11 U.S.C. 1328(b), the school must determine whether grounds exist under 11 U.S.C. 1307 to dismiss the case filed under Chapter 13 or to convert the Chapter 13 case to a Chapter 7 proceeding or whether the borrower is entitled to a hardship discharge. If grounds do exist under 11 U.S.C. 1307 to dismiss or convert a Chapter 13 case, the school must move to convert or dismiss the case. If a borrower has not demonstrated entitlement to a hardship discharge under 11 U.S.C. 1328(b), the school must oppose the hardship discharge request, unless the costs of these actions, when added to those already incurred, would exceed one-third of the dischargeable debt.

Perkins Loan Billing, Collection, and Default

CHAPTER 5

When a Perkins Loan enters repayment, your school must follow the due diligence requirements of Subpart C of the Perkins regulation (34 CFR 674.41-50). You must afford a borrower maximum opportunity to repay a Federal Perkins Loan. Specific steps the school must take include (but are not limited to) billing the borrower, sending overdue notices, and conducting address searches if the borrower cannot be located. If billing procedures fail, a school must take more aggressive collection steps such as hiring a collection firm and/or litigating. Default in the Federal Perkins Loan Program is defined as “the failure of a borrower to make an installment payment when due or to comply with other terms of the promissory note or written repayment agreement.”

COMMUNICATION WITH BORROWER

While billing and collection activities involve many steps, there are general requirements that your school must adhere to at all times. You must inform the borrower of all program changes that affect his or her rights and responsibilities. Your school must respond promptly to the borrower’s inquiries. If a borrower disputes a loan and you cannot resolve the dispute, you must explain the services provided by the Department’s Federal Student Aid (FSA) Ombudsman’s office.

Keeping current information on a borrower makes it easier for the school to know when repayment must begin and where to send billing notices. The various offices at the school—the admissions, business, alumni, placement, financial aid, and registrar’s offices, and others, as necessary—must provide any available information about the borrower that is relevant to loan repayment, including:

- the borrower’s current enrollment status;
- the borrower’s expected graduation or termination date;
- the date the borrower officially withdraws, drops below half-time enrollment, or is expelled; and
- the borrower’s current name, address, telephone number, Social Security number, and driver’s license number (if any).

Communication requirements

General due diligence

34 CFR 674.41(a)

Coordination of information

34 CFR 674.41(b)

Contact with borrower

34 CFR 674.42

Disclosure of repayment information

34 CFR 674.42(a)

Exit counseling

34 CFR 674.42(b)

Contact during initial and post-deferment grace periods

34 CFR 674.42(c)

For information about maintaining billing and collection records, see *Chapter 1*.

REQUIREMENTS AT END OF ENROLLMENT

Exit interviews

Exit interviews

34 CFR 674.42(b)

Exit interviews for students enrolled in a correspondence or study-abroad program

In the case of students enrolled in a correspondence program or a study-abroad program that your school approves for credit, you may provide written counseling materials by mail within 30 days after the borrower completes the program.

Perkins NSLDS reporting

34 CFR 674.16

You must report enrollment and loan status information to NSLDS by the deadline date established in the Federal Register Website

<http://www.nsls.ed.gov>

Phone number: 800-999-8219

Contact with the borrower becomes even more important as the borrower's last day of attendance approaches. Your school should conduct exit interviews with borrowers either in person, by audiovisual presentation, or by interactive electronic means. (If you conduct exit interviews through interactive electronic means, you should take reasonable steps to ensure that each student borrower receives the materials and participates in and completes the exit interview.)

Schools should conduct this interview shortly before the student graduates or drops below half-time enrollment (if known in advance). If individual interviews are not possible, group interviews are acceptable. Your school may employ third-party servicers to provide Perkins Loan borrowers with exit interviews. In the case of correspondence study, distance education, and students in the study-abroad portion of a program, you may provide written interview materials by mail within 30 days after the borrower completes the program.

During the exit interview, the financial aid counselor must review and update all of the repayment terms and information addressed any initial loan counseling session. (See Chapter 3 .)

The exit interview must also discuss:

- debt-management strategies that would facilitate repayment,
- the availability of FSA loan information on the National Student Loan Database System (NSLDS), and
- how to contact the FSA Ombudsman's office and an explanation of the services this office provides.

As part of the exit information, you must collect the name and address of the borrower's expected employer.

The financial aid counselor must emphasize the seriousness and importance of the repayment obligation the borrower is assuming, describing the likely consequences of default, including adverse credit reports, litigation, and referral to a collection agency. The counselor must further emphasize that the borrower is obligated to repay the full amount of the loan even if the borrower has not completed the program, is unable to obtain employment upon completion, or is otherwise dissatisfied with the school's educational or other services.

If the borrower withdraws from school without the school's prior knowledge or fails to complete an exit counseling session, the school must provide exit counseling through either interactive electronic means or by mailing counseling material to the borrower at the borrower's last known address within 30 days after learning that the borrower has withdrawn from school or failed to complete exit counseling.

FSA Ombudsman

The Ombudsman's office is a resource for borrowers to use when other approaches to resolving student loan problems have failed. Borrowers should first attempt to resolve complaints by contacting the school, company, agency, or office directly involved. If the borrower has made a reasonable effort to resolve the problem through normal processes and has not been successful, he or she should contact the FSA Ombudsman.

Office of the Ombudsman
U.S. Dept. of Education
830 First St. NE
Mailstop #5144
Washington, DC 20202-5144

Toll-free: 877-557-2575
202-377-3800
202-275-0549

<http://fsahelp.ed.gov>

Disclosure of repayment information

Either shortly before the borrower ceases at least half-time study or during the exit interview, schools must disclose critical repayment information to the borrower *in a written statement*. Most of the repayment terms that the school must disclose to the borrower already appear in the promissory note. The school must also give the borrower the following information:

- contact information for requesting a copy of the signed promissory note;
- the name and address of the school to which the debt is owed and the name and address of the official or servicing agent to whom communications should be sent;
- the name and address of the party to which payments should be sent;
- the estimated balance owed by the borrower on the date on which the repayment period is scheduled to begin;

Disclosure of repayment information

34 CFR 674.42(a)

- the repayment schedule for all loans covered by the disclosure, including the date the first installment payment is due, the rate of interest, and the number, amount, and frequency of required payments; and
- the total interest charges that the borrower will pay on the loan pursuant to the projected repayment schedule.

If your school exercises the minimum monthly payment option, you must inform the borrower that if he or she wants your school to coordinate payments with another school, he or she must request such coordination.

If a borrower enters the repayment period without the school's knowledge, the school must provide the required disclosures to the borrower in writing immediately upon discovering that the borrower has entered the repayment period.

Contact during grace periods

A school must contact the borrower during both initial and post-deferment grace periods to remind him or her when repayment will begin or resume.

Your school must contact the borrower three times during the nine-month initial grace period. The school must also contact the borrower twice during any six-month post-deferment grace period. The chart on the next page shows the length of initial and post-deferment grace periods for NDSLs and Perkins Loans.

- The *first contact* must be *90 days* after any grace period (initial or post-deferment) begins. The school must remind the borrower that he or she is responsible for repaying the loan. The school must also inform the borrower of the amount of principal and interest, as projected for the life of the loan, and the due date and amount of the first (or next) payment.
- The *second contact* must be *150 days* after any grace period begins, when the school must again remind the borrower of the due date and amount of the first (or next) payment. For six-month grace periods, the second contact should coincide with the first billing notice. These two notices may be combined.
- For nine-month grace periods, the school must make a *third contact 240 days* after the grace period begins to remind the borrower of the date and amount of the first payment. This contact should coincide with the first billing notice. Again, the school may combine the two notices.

Grace period contact

34 CFR 674.42(c)

When Payments are Made

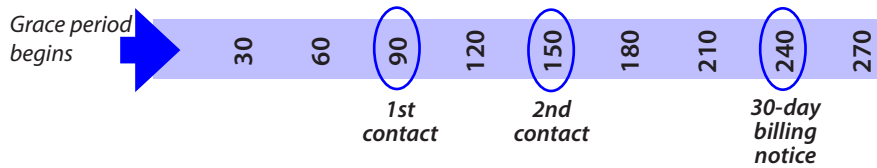
Any funds collected as a result of billing the borrower are to be –

- deposited in an account insured by the federal government, or
- secured by collateral of reasonable equivalent value, or
- invested in low-risk income-producing securities.

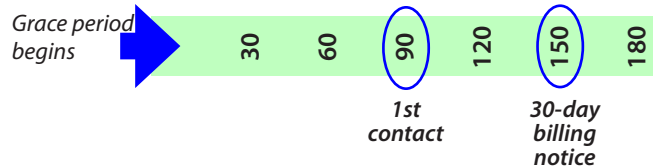
Your school must exercise the level of care required of a fiduciary with regard to these deposits and investments.

Contact with borrower during grace period

9-month grace period



6-month grace period



Applicable grace periods	Perkins	NDSL on/after 10/1/80	NDSL before 10/1/80
initial grace period	9 months	6 months	9 months
post-deferment period	6 months	6 months	6 months

BILLING PROCEDURES AND OVERDUE PAYMENTS

Billing refers to that series of actions the school routinely performs to notify borrowers of payments due, remind them of overdue payments, and demand payment of overdue amounts.

The school may choose a coupon payment system as its method of billing. If so, the school must send the coupons to the borrower at least 30 days before the first payment is due.

If the school does not use a coupon system, it must, at least *30 days* before the first payment is due, send the borrower a statement of account and a written notice giving the name and address of the party to which payments should be sent. The statement of account includes information such as the total amount borrowed, the interest rate on the loan, and the amount of the monthly payment. For subsequent payments, the school must send the borrower a statement of account at least *15 days* before the due date of the payment.

If the borrower chooses to make payments through electronic funds transfer, the school doesn't have to send the borrower a statement of account before each payment. However, the school must send the borrower an annual statement of account that lists the required amounts and dates of repayment, as well as any information tracking the status of any late charges.

Billing procedures

34 CFR 674.43

Procedures required when payments are overdue

34 CFR 674.43(b), (c), & (d)

Optional penalty or late charge for periods of enrollment beginning before January 1, 1986

34 CFR 674.31(b)(5)(i) & (ii)

34 CFR 674 Appendix E

Schools are authorized but not required to assess a penalty or late charge for an overdue payment on a loan made for a period of enrollment that began before January 1, 1986. The maximum penalty charge that may be assessed on a loan payable monthly is \$1 for the first month and \$2 for each additional month a payment is overdue; the maximum penalty for a loan payable bimonthly is \$3; the maximum penalty for loans payable quarterly is \$6. Penalty or late charges on these loans may be assessed only during the billing process.

Default Reduction Assistance Program

The Default Reduction Assistance Program (DRAP) assists schools in bringing defaulted borrowers into repayment. Under DRAP, a school or a school's third-party servicer can request that the Department send a borrower a letter designed to warn the student of the seriousness of default. The Department provides these services at no cost to the school. Participation in DRAP is voluntary.

The new DRAP process is an entirely Web-based process conducted at the new eCampus-Based website (www.cbfsap.ed.gov).

Once you have logged into the eCampus-Based website using your FSA User ID and password, select the "DRAP" link on the top navigation bar to begin. You will be able to enter borrower information directly or upload a file with a list of up to 1,000 borrowers and their addresses.

As DRAP is intended to get the borrower back into repayment *before* the account goes to a collection firm, this service should *not* be requested once a collection agency is involved. DRAP service is usually provided during the 30-day period during which a school is awaiting response to the final demand letter.

Electronic Announcement - September 21, 2011

General questions about DRAP should be directed to the Campus-Based Call Center at 877-801-7168 Mon–Fri, 8 a.m. – 8 p.m. EST or by email to CBFOB@ed.gov.

Notices of overdue payments

If a payment is overdue and you have not received a request for forbearance, deferment, or cancellation, you must send the borrower:

- the *first* overdue notice 15 days after the payment due date;
- the *second* overdue notice 30 days after the first overdue notice;
- the *final demand letter* 15 days after the second overdue notice.

In this notice, you must tell the borrower the amount of any late charge your school has assessed (see discussion under *Late charges* later in this chapter), and whether your school has:

- added the charge amount to the principal amount as of the first day on which the payment was due; or
- demanded payment of the charge no later than the first day on which the next installment is due.

You may skip the first two letters and send just the final demand letter within *15 days* after a payment is overdue if the borrower's repayment history has been unsatisfactory or if you can reasonably conclude the borrower does not intend to repay the loan or to seek forbearance, deferment, or cancellation. A borrower is considered to have an unsatisfactory repayment history if he or she has failed to make payments when due, has failed to request deferment, forbearance, or cancellation on time, or has received a final demand letter.

If mail sent to a borrower is returned undelivered, or if the borrower fails to respond, you must take steps to locate the borrower. These steps must include:

- reviews of borrower records in all appropriate school offices;
- reviews of telephone directories or inquiries to directory assistance at the borrower's last known address, and attempting to reach the borrower by phone; and
- attempting to locate and contact the borrower by electronic means.

Contacting the borrower by telephone

If the borrower does not respond to the final demand letter within 30 days, you must try to contact him or her by telephone before beginning collection procedures. As telephone contact is often very effective in getting the borrower to begin repayment, one call may avoid the more costly procedures of collection.

You should make at least two attempts to reach the borrower on different days and at different times. If the borrower has an unlisted telephone number, you must make reasonable attempts to obtain it by contacting sources such as the borrower's employer or parents. If you are still unsuccessful, you should document the contact attempts in your files..

Address searches

The school must take the following steps to locate the borrower if communications are returned undelivered (other than unclaimed mail):

- review the records of all appropriate school offices, and
- review printed or Web-based telephone directories, or check with information operators in the area of the borrower's last known address.

If these methods are unsuccessful, you must intensify efforts to locate the borrower, using either school personnel or a commercial skip-tracing firm. If you use school personnel, you must employ and document efforts comparable to commercial skip-tracing firms. If you still can't locate the borrower after taking these steps, you must continue to make reasonable attempts at least twice a year until the account is assigned to the Department or the account is written off.

Late charges

The assessment of late charges on an overdue Perkins Loan borrower is now optional. The final demand letter must inform the borrower that unless the school receives a payment or a request for forbearance, deferment, or cancellation *within 30 days* of the date of the letter, the school will refer the account for collection or litigation and will report the default to a credit bureau as required by law.

A school that adopts a policy of assessing late charges on an overdue Perkins Loan must impose them on all borrowers with overdue payments. The charge is based either on the actual costs the school incurs in taking steps to obtain the overdue amount or on average costs incurred in similar attempts with other borrowers. The charge may not exceed 20% of the installment payment most recently due.

Telephone contact required

34 CFR 674.43(f)

Contacting the endorser—loans Before July 23, 1992

For loans made prior to July 23, 1992, the school must also try to collect the amount owed from any endorser of the loan. It may help to send the endorser a copy of the final demand letter that was sent to the borrower and copies of all subsequent notices, including dunning letters. For loans made on or after July 23, 1992, an endorser is no longer required.

Address search

34 CFR 674.44

IRS Skip-Tracing

Previous Handbooks noted that schools could use IRS Skip-Tracing services to locate Perkins borrowers. (See Dear Partner Letter CB-02-16, November 2002.) However, IRS Skip-Tracing is no longer available to schools that participate in the Perkins Loan Program. See the Electronic Announcement posted on July 10, 2009.

Late charges

34 CFR 674.43(1)(b)(5)

If your school assesses a late charge, it must also impose a late charge if a borrower's payment is overdue and the borrower has not filed a complete request for forbearance, deferment, or cancellation on time. (To be complete, the request must contain enough information for you to confirm the borrower's eligibility.) If a school opts to charge late fees, the school may charge late fees only during the billing process; a school may not charge late fees once the school begins collections procedures.

You may add the penalty or late charge to the principal amount of the loan as of the first day the payment was due. Alternatively, you may include the charge with the next payment that is scheduled after the date you notify the borrower that the charge must be paid in full by the next payment due date. You must inform the borrower of the late charge, preferably in the first overdue payment notice.

For a borrower who repays the full amount of past-due payments, the school may waive any late charges that were imposed.

Loan acceleration

Loan acceleration

34 CFR 674.31(b)(8)

34 CFR 674.43(e)

You may *accelerate* a loan if the borrower misses a payment or does not file for deferment, forbearance, or cancellation on time. Acceleration means immediately making payable the entire outstanding balance, including interest and any applicable late charges or collection fees.

Because this marks a serious stage of default, the borrower should have one last chance to bring his or her account current. For that reason, if the school plans to accelerate the loan, it must send the borrower a written acceleration notice at least 30 days in advance. The notice may be included in the final demand letter or in some other written notice sent to the borrower.

If the loan is accelerated, you must send the borrower another notice to inform him or her of the date the loan was accelerated and the total amount due. Remember that acceleration is an option, not a requirement. However, if you plan to assign the loan to the Department for collection, you must first accelerate the loan. Once a loan has been accelerated, the borrower loses all rights to deferment and cancellation benefits for qualifying service performed *after* the date of acceleration.

Collection procedures

When a borrower does not respond to routine billing methods, your school will need to institute more intensive collection procedures. Before beginning collection procedures, you must attempt all of the required contact methods described above.

If the borrower is unresponsive and normal billing procedures have been exhausted, you must make a first effort to collect using either your own personnel or hiring a collection firm. You must also report the borrower to at least one nationwide credit bureau. If the school's personnel or the collection firm cannot convert the account to regular repayment status by the end of 12 months (or if the borrower does not qualify for forbearance, deferment, or cancellation), you have two options—either to litigate or to make a second effort to collect.

A second effort to collect requires one of the following procedures:

1. If you first attempted to collect by using your own personnel, it must refer the account to a collection firm unless state law prohibits doing so.
2. If you first used a collection firm, you must attempt to collect by using your own personnel or by using a different collection firm, or the school must submit the account to the Department for assignment. If a collection firm (retained by a school as part of its second effort to collect) cannot place an account into regular repayment status by the end of 12 months (or if the borrower does not qualify for forbearance, deferment, postponement, or cancellation), the firm must return the account to the school.

If you are unsuccessful in your effort to place the loan in repayment after a second collection effort, you must continue to make yearly attempts to collect from the borrower until –

- the loan is recovered through litigation;
- the account is assigned to the Department; or
- the loan is written off.

Collection procedures

34 CFR 674.45

Credit bureau reporting

34 CFR 674.45(a)(1) & (b)

First effort to collect

34 CFR 674.45(a)(2)

Litigation or second effort

34 CFR 674.45(c)

Annual efforts to collect

34 CFR 674.45(d)

Requirements after one year

34 CFR 674.45(c)

Costs assessed to borrower

34 CFR 674.45(e)

Treatment of collected funds

34 CFR 674.43(g)

34 CFR 674.45(f)

Preemption of state law

34 CFR 674.45(g)

Ombudsman information

34 CFR 674.45(h)

Use of contractors for billing and collection

34 CFR 674.48

School is ultimately responsible

34 CFR 674.48(a) & (b)

School responsibilities when using contractors

34 CFR 674.48(c) & (d)

Limitations on use of contractors

34 CFR 674.48(e)

School requirements of contractors

34 CFR 674.48(f)

Credit bureau reporting

Credit bureau reporting

34 CFR 674.45(a)(1) & (b)

A school must report an account to credit bureaus as being in default when a borrower fails to respond to the final demand letter or the following telephone contact. You must report the default to any one national credit bureau or to an affiliated credit bureau that transmits credit information to one of the three national credit bureaus with which the Department has an agreement (see box below).

You must report any subsequent changes in the status of the borrower's account to the same national credit bureau, using the procedures required by that credit bureau. You must respond within one month to any inquiry received from any credit bureau about reported loan information. Finally, you must notify all credit bureaus to which you reported the default when a borrower makes consecutive, on-time monthly payments.

Reporting good credit history (as well as reporting defaulted loans) is essential to ensure that current and future creditors have complete information regarding the credit obligations of the borrower.

Under the Fair Credit Reporting Act, a borrower may appeal the accuracy and validity of the information reported to the credit bureau and reflected in the credit report. You should be prepared to handle the appeal and make necessary corrections to the report as required by the provisions of the act.

National Credit Bureaus

The Department has entered into an agreement with the three national credit bureaus listed below:

Trans Union Corporation	(1-800-888-4213)
Experian (formerly TRW)	(1-888-397-3742)
Equifax	(1-800-685-1111)

National credit bureaus charge fees for their services. These fees differ from credit bureau to credit bureau. Credit bureaus affiliated with the above credit bureaus may have different fees from those of the national credit bureaus. The Department does not keep a list of these affiliated bureaus and their fees.

The Privacy Act authorizes disclosure of a borrower's account information to creditors without the borrower's consent if the disclosure helps enforce the terms and conditions of the loan. You may also make such disclosures about loans that haven't defaulted and/or are being disbursed.

Ceasing collection

A school may cease collection activity on defaulted accounts with balances of less than \$200 (including outstanding principal, accrued interest, collection costs, and late charges) if the school carried out the required due diligence and if the account has had no activity for four years. Although interest will continue to accrue and may put the account over \$200, you will not have to resume collection activity if you document that you ceased collection activity when the account was under \$200. The borrower will remain responsible for repaying the account, including accrued interest. The account will still be included in the school's cohort default rate, if applicable, and the borrower will still be in default and ineligible for FSA funds.

ALTERNATIVES TO LITIGATION

To avoid litigation, a school may offer to waive collection costs as incentive for repayment. You may waive *all* collection costs on a loan if the borrower makes a lump-sum payment of the entire amount outstanding, including principal and interest; a written repayment agreement is not required. You may also waive a *portion* of the collection costs on a loan if the borrower agrees to pay a corresponding portion of the loan within 30 days of entering into a written repayment agreement with the school. For example, if the borrower repays half of the outstanding balance on a loan within 30 days of the agreement, the school may waive half of the collection costs incurred through the date of that payment. The amount of waived collection costs may be charged to the Perkins Loan Fund.

You may compromise the repayment of a defaulted loan if you have fully complied with all due diligence requirements and the borrower pays, in a single lump-sum payment, at least 90% of the outstanding principal balance, plus all interest and collection fees. The federal share of the compromise repayment must bear the same relation to the school's share as the Federal Capital Contribution (FCC) bears to the Institutional Capital Contribution (ICC).

A borrower may rehabilitate a defaulted Perkins Loan by making nine consecutive, on-time, monthly payments. A rehabilitated loan is returned to regular repayment status. (See *Rehabilitation* later in this chapter.)

A borrower may include his or her defaulted Perkins Loan, NDSL, or Defense Loan in a Direct Consolidation Loan. The amount eligible for consolidation is the sum of the unpaid principal, accrued unpaid interest, late charges, and outstanding collection costs. A defaulted loan that is being repaid under a court order remains in default status until paid and is not eligible for consolidation.

Ceasing collections cites

Ceasing collections

34 CFR 674.47(g)

Account write-off

34 CFR 674.47(h)

Litigation

34 CFR 674.46

Compromise

34 CFR 674.33(e)

Collection costs waiver

34 CFR 674.47(d)

Consolidating defaulted Perkins Loans

A borrower with a defaulted Perkins Loan and an outstanding FFEL or Direct Loan can get information about obtaining a Direct Consolidation Loan by contacting the Direct Loan Consolidation Department at 1-800-557-7392 or by visiting the Direct Loan web-site: www.direct.ed.gov.

Writing off accounts

You may write off a defaulted account with a balance of less than **\$25** (including outstanding principal, accrued interest, collection costs, and late charges).

You may also write off a defaulted account with a balance of less than **\$50** (including outstanding principal, accrued interest, collection costs, and late charges), if, for a period of two years, you have billed the borrower as required by 34 CFR 674.43(a).

If you write off an account, the borrower is relieved of all payment obligations, and you must deduct the amount of the account from the Federal Perkins Loan Fund. If you receive a payment from a borrower after you have written off the loan, you must deposit that payment into the fund.

LITIGATION

Elimination of defense of infancy

HEOA Section 486

Schools in the Perkins Loan Program are not subject to a defense raised by a borrower on the basis of a claim of infancy under state law. See General Provisions relating to student assistance.

Deceased student and family estate

The HEOA of 2008 provides that a deceased student, a deceased student's estate, or the estate of such student's family does not have to repay any Federal Student Aid, including interest, collection costs and other charges.

HEOA section 486 | HEA section 484A

Effective date: August 14, 2008

Litigation

34 CFR 674.46

Collection costs waiver

34 CFR 674.47(d)

If the collection procedures described in this section do not result in the repayment of a loan, the school must review the account for litigation once every 2 years. If all the conditions are met, the school must litigate. The conditions are:

- the total amount owed, including outstanding principal, interest, collection costs, and late charges, on all the borrower's Perkins Loans and NDSLs at the school is more than \$500;
- the borrower can be located and served with process;
- the borrower either has enough assets attachable under state law to cover a major portion of the debt or enough income that can be garnished under state law to satisfy a major portion of the debt over a reasonable period of time (defining a "reasonable period of time" is left to the school);
- the borrower does not have a defense that will bar judgment for the school; and
- the expected cost of litigation (including attorneys' fees) does not exceed the amount that can be recovered from the borrower.

Even if all the above conditions are not met, your school may still choose to sue a defaulted borrower. If the borrower has a partial defense that may bar judgment for the school, you must weigh the costs of litigation against the costs of recovery based on the amount of the enforceable portion of the debt. No federal or state statute of limitation can apply to enforcement actions to collect Perkins Loans or NDSLs.

Your school must attempt to recover from the borrower all litigation costs, including attorneys' fees, court costs, and other related costs, to the extent permitted by applicable state law. You are also required to try to recover all costs previously incurred in the collection of overdue payments if the borrower has not paid these collection costs; a percentage of these unrecovered costs may be charged to the fund as explained later in this chapter under "Billing and Collection Costs."

When a school has filed suit to collect a defaulted Perkins Loan or NDSL and a judgment has been rendered on the loan, the borrower is obligated to repay only the amount of the judgment obtained on the loan. A defaulted loan that is being repaid under court order remains in default status until paid and is not eligible for consolidation. After a judgment is satisfied on the defaulted loan, the student is again eligible for future awards under these programs if all other eligibility criteria are met.

PERKINS ASSIGNMENT

A school may assign defaulted Perkins/NDLS loans to FSA Collections if:

- it has not been able to collect despite having followed due diligence procedures (including at least a first level of collection),
- the total amount of the borrower's account to be assigned, including outstanding principal, accrued interest, collection costs, and late charges, is \$25 or more, and
- the loan has been accelerated.

You may *not* assign a loan to FSA Collections under the voluntary assignment procedures if:

- the borrower has received a discharge in bankruptcy—unless the bankruptcy court has determined that the student loan obligation is nondischargeable and has entered a judgment against the borrower or unless a court of competent jurisdiction has entered judgment against the borrower on the loan after the entry of the discharge order;
- your school has sued the borrower (unless the judgment has been entered and assigned to the United States); or
- the loan has been discharged because the borrower has died.

Upon notification by the Department, you may be required to assign a Perkins loan if your school has knowingly failed to maintain an acceptable collection record with regard to the loan or chooses to stop servicing and collecting its Perkins Loans.

Required documentation

A school *may be required* to submit the following documents to FSA Collections for any loan it proposes to assign:

- one original and one photocopy of the assignment form;
- the original promissory note or a certified copy of the original note;
- a copy of the repayment schedule and a complete statement of the payment history;
- copies of all approved requests for deferment and cancellation;
- a copy of the notice to the borrower of the effective date of acceleration and the total amount due on the loan;

Assignment form and procedures

34 CFR 674.50

Electronic Announcement - August 5, 2011

Federal interest on accelerated loans

34 CFR 674.17

Assignment address

A school should mail assignments to:

U.S. Department of Education
Perkins Loan Assignment
Processing Center
P.O. Box 4136
Greenville, TX 75403-4136

Reporting "date(s) of first disbursement" on loan manifest

You must report the date each assigned loan was disbursed (attached to the Institutional Certification page of the Perkins Assignment form). The dates listed must match the date of first disbursement initially reported by your school to NSLDS. If multiple loans were combined into one loan, you list the date of first disbursement for the first loan in the combination. If a student received multiple loans reported separately, you list the date of first disbursement for each loan. For more details, see Dear Colleague Letter CB-06-12.

Mandatory assignment

The Department no longer has the authority to require mandatory assignment of Perkins Loans based on a school's Program Participation Agreement.

The Department may request that a school assign its portfolio if the school is no longer making loans.

The Department continues to have the authority to require mandatory assignment if a school has knowingly failed to maintain an acceptable collection record with regard to the loan or chooses to stop servicing and collecting its Perkins Loans.

This statutory change nullifies the mandatory assignment regulations in 34 CFR 674.8(d)(3).
HEOA 463
Effective date: August 14, 2008

Assignment under e-signed or Perkins MPN

If you assign loans that were made under an electronically signed promissory note, you must cooperate with the Department in all activities necessary to enforce the loan. You may be asked to provide an affidavit or certification regarding the creation and maintenance of electronic records of the loan. This affidavit or certification must establish that the records are created and maintained in a form appropriate to ensure admissibility of the loan records in a legal proceeding.

The affidavit or certification must:

- describe the steps followed by the borrower to execute the promissory note;
- include copies of screen shots that would have appeared to the borrower when the borrower signed the note electronically;
- describe field edits and other security measures used to ensure data integrity;
- describe how the promissory note has been preserved to ensure it has not been altered;
- include documentation supporting the school's authentication and electronic signature process; and
- provide any other documentary and technical evidence requested by the Department.

The affidavit or certification may be executed in a single record for multiple loans provided that this record is reliably associated with the specific loans to which it pertains.

An authorized official or employee of the school may have to testify to ensure admission of the electronic records of the loan or loans in the litigation or legal proceeding to enforce the loan or loans.

Your school's most recent audit must assess how well your school's e-sign authentication process meets the Department's "Standards for Electronic Signatures in Electronic Student Loan Transactions" (as specified in DCL GEN-01-06).

- documentation that the school has withdrawn the loan from any firm that it employed for address search, billing, collection, or litigation services and has notified that firm to cease collection activity on the loans;
- copies of all pleadings filed or received by the school on behalf of a borrower who has filed a petition in bankruptcy and whose loan obligation is determined to be nondischargeable;
- a certified copy of any judgment order entered on the loan; and
- documentation that the school has complied with all of the due diligence requirements if the school has a cohort default rate that is equal to or greater than 20% as of June 30 of the second year preceding the submission period.

If you assign loans made under the Perkins MPN, you must maintain disbursement records that document the principal amount loaned until the loan is paid off or otherwise satisfied. You may include disbursement records with the assignment submission. For more details on Perkins Loan Portfolio Liquidation and Assignment, see Electronic Announcement of August 5, 2011.

Terms of assignment

If FSA Collections accepts the assignment of a loan, it will give the school written notice to that effect. *By accepting the assignment, the Department acquires all rights, title, and interest in the loan.* You must endorse and forward to the Department any subsequent payment(s) the borrower may make.

If FSA Collections later determines an assigned loan to be unenforceable because of an act or omission on the part of your school or its agent, your school may have to compensate the Perkins Loan Fund in the amount of the unenforceable portion of the outstanding balance. Once the fund is reimbursed, the Department transfers all rights to the loan back to the school.

A borrower whose loan has been assigned to the United States for collection continues to be in default on the loan and is ineligible for FSA funds until the borrower provides confirmation from FSA Collections that he or she has made satisfactory arrangements to repay the loan.

DEFAULT STATUS AND PERKINS ELIGIBILITY

A borrower who is in default on an FSA loan is not eligible for any other further FSA loans unless they have regained eligibility. (See *Volume 1* for guidance on how a student may regain eligibility). However, a borrower who satisfies any of the conditions that remove a Perkins Loan from his or her school's cohort default rate calculation becomes eligible for additional Perkins Loans only (see *Draft FISAP Instruction Booklet*).

Satisfactory repayment arrangements

A borrower who is in default on a Perkins Loan may regain eligibility for further federal student aid by making satisfactory repayment arrangements. (See *Volume 1*.) If the borrower has made satisfactory repayment arrangements, the school must appropriately update the loan status code in the National Student Loan Data System.

Perkins Loan rehabilitation

Your school must establish a rehabilitation program and notify all borrowers with defaulted loans of the option to rehabilitate and the advantages of rehabilitation. A borrower may rehabilitate a defaulted Perkins Loan by making nine consecutive on-time payments. (Previously, 12 payments were required—see sidebar.)

Borrowers may not rehabilitate loans on which the holder has obtained a judgment. However, your school may enter into an agreement with the borrower that provides the borrower with some of the benefits of rehabilitation. For example, your school could promise to vacate the current judgment and request the removal of the default from the borrower's credit after the borrower makes nine consecutive payments and signs a new promissory note.

The rehabilitation payments should be sufficient to satisfy the outstanding balance on the loan within a 10-year repayment period. A school may not establish a loan rehabilitation policy that requires defaulted Perkins Loan borrowers to pay the full outstanding balance of the loan within the nine-month rehabilitation period, if such payments would create a hardship for the borrower. In most cases, such a policy would require a borrower to make excessively high monthly payments, and would, in effect, deny the borrower access to a statutorily mandated benefit of the Perkins Loan Program.

Rehabilitation

34 CFR 674.39

Change to rehabilitation requirement

The HEOA reduces the number of on-time, consecutive, monthly payments required to rehabilitate a loan from 12 to 9. A school may consider borrowers who began making rehabilitation payments prior to August 14, 2008, to have successfully rehabilitated their loans after making nine qualifying monthly payments if at least one of those payments was made on or after August 14, 2008. A school must treat all of its Perkins Loan borrowers consistently in applying the 12-month or 9-month standard for borrowers who began making rehabilitation payments before August 14, 2008.

HEOA section 464

HEA section 464

Rehabilitation agreements prior to November 1, 2002

If, prior to November 1, 2002, you offered rehabilitation to a borrower for loans with judgments, you should honor the rehabilitation agreement. You do not need to offer rehabilitation again if the borrower misses any of the required payments.

Involuntary payments

The term "voluntarily" excludes payments obtained by income tax offset, garnishment, income asset execution, or pursuant to a judgment.

Within 30 days of receiving the borrower's last on-time consecutive monthly payment, you must:

- return the borrower to regular repayment status;
- treat the first of the nine consecutive payments as the first payment in a new ten-year repayment schedule; and
- instruct any credit bureau to which the default was reported to remove the default from the borrower's credit history.

After rehabilitating a defaulted loan and returning to regular repayment status, a borrower regains the benefits and privileges of the promissory note, including deferment and cancellation.

If a borrower chooses to rehabilitate a defaulted loan and then fails to make 9 consecutive on-time payments, the rehabilitation is unsuccessful, but the borrower may still make further attempts to rehabilitate the defaulted loan. Also, if a borrower successfully rehabilitates a defaulted loan and maintains good standing on the loan, the borrower may continue to attempt to rehabilitate other defaulted Perkins loans. However, if the borrower successfully rehabilitates a defaulted loan, but the loan later returns to default, the borrower may not attempt to rehabilitate that loan again or any other defaulted Perkins Loan.

Loans with judgments

When a school has filed suit to collect a defaulted Perkins Loan or NDSL and a judgment has been rendered on the loan, the borrower is obligated to repay only the amount of the judgment obtained on the loan. If the judgment is for less than the outstanding balance on the loan, the school may write off the portion of the loan not covered by the judgment. After a judgment is satisfied on the defaulted loan, the student is again eligible for aid from FSA programs if all other eligibility criteria are met. However, if a borrower has previously satisfied a defaulted student loan *involuntarily* (for instance, through wage garnishment), you should consider this as evidence of unwillingness to repay and should not approve further loan assistance to the borrower.

Previously defaulted loans discharged for school closure

A Perkins Loan made on or after January 1, 1986, may be discharged if the borrower is unable to complete his or her program of study due to the closure of the school that made the loan. A defaulted borrower whose loan is discharged under this closed school provision is eligible for additional federal student aid, provided that he or she meets all other eligibility criteria. (Schools that close must assign all Perkins Loans to FSA Collections. FSA Collections, or the school, if the school still holds the loan, must report to credit bureaus that the loan has been discharged.)

Closed school discharge

34 CFR 674.33(g)

PERKINS COHORT DEFAULT RATES (CDR)

Your school's cohort default rate is calculated for a particular year based on information you report in Part 3, Sections D and E of the FISAP. For detailed information on how your school's cohort default rate is determined, see Part III of the Draft FISAP Instruction Booklet available under "Publications" on the IFAP website.

How the Perkins default rate is calculated

For any award year in which *30 or more borrowers enter repayment*, the cohort default rate is the percentage of those current and former students who enter repayment *in that award year* on loans received for attendance at that school and *who default before the end of the following award year*.

For any award year in which *fewer than 30 current and former students at the school enter repayment* on a loan received at the school, the cohort default rate is the percentage of those current and former students who entered repayment on loans received for attendance at that school in any of the *three most recent award years* and who defaulted on those loans before the end of the award year immediately following the year in which they entered repayment.

For purposes of the cohort default rate, a loan enters repayment only once in its life. This repayment begins the day after the end of the initial grace period or the day that the borrower waives his or her initial grace period.

A borrower is included in determining the school's cohort default rate if the borrower's default has persisted for at least 240 consecutive days for a loan repayable monthly or 270 consecutive days for a loan repayable quarterly.

Perkins loans that are not treated as defaults

The following loans are not treated as defaults when reporting borrower status on Part III of the FISAP:

- loans on which borrowers have made six consecutive monthly payments;
- loans on which borrowers have "voluntarily" made all payments currently due;
- loans that borrowers have repaid in full;
- loans for which borrowers have received deferments or forbearance based on conditions that began prior to loans becoming 240/270 days past due;
- loans that have been rehabilitated;

Perkins CDR

34 CFR 674.5

Penalty for high CDR

34 CFR 674.5(a)

Calculation

34 CFR 674.5(b)

Loans included in the cohort default rate

34 CFR 674.5(c)(1) & (2)

Loans not included in cohort default rate

34 CFR 674.5(c)(3)

CDR for multiple locations or change of ownership

If a school has a branch or branches or has an additional location or locations, the school's cohort default rate applies to all branches and locations of the school as they exist on the first day of the award year for which the rate is calculated. The cohort default rate applies to all branches/locations of the school from the date the Department notifies the school of the rate until the Department notifies the school that the rate no longer applies.

For more information about the effect of changes of ownership and the treatment of multiple locations in the Perkins rate calculation, see 34 CFR 674.5(d).

Perkins cohort default rates listing

The *Federal Perkins Loan Program Status of Default*, known as the Orange Book, lists the cohort default rates for each school that participates in the Perkins program. See the "Publications" area on the IFAP website.

- loans repaid in full under a compromise repayment agreement in accordance with 674.33(e);
- loans that have been discharged due to death or permanent disability, bankruptcy, or a school closing; and
- loans that have been assigned to the ED for determination of eligibility for total and permanent disability discharge.

Rules for calculating the number of days in default

For purposes of reporting on Part III of the FISAP, a school should use the following rules to calculate the number of days a loan has been in default:

- The 240/270 consecutive days in default is determined by calculating the “age” of the account (that is, the number of consecutive days the oldest dollar is past due).
- A payment that a borrower makes on a past-due loan is applied to the oldest dollars first, effectively reducing the past-due status.
- A loan on which a borrower is past due and on which the borrower makes an occasional payment but never becomes current could be counted as a defaulted loan for the cohort default rate calculation despite the occasional payments. Because the delinquency is not being cured, the oldest past-due dollar could eventually become 240 days past due, making the loan count in the default rate calculation. However, if the borrower makes enough occasional payments to prevent the oldest past-due dollar from becoming 240 days old, the loan would not be counted as being in default.
- An exception to the 240/270-day threshold will be granted in a case where a borrower (1) would have qualified for a deferment for a period beginning prior to the loan hitting the 240/270-day threshold and (2) failed to file a request for the deferment in a timely manner. For such a borrower, the loan’s past-due status would be adjusted to reflect the deferment period beginning date. However, the borrower would need to pay any past-due amounts that were due prior to the beginning of the authorized deferment periods, if the deferment period beginning date does not eliminate the loan’s entire delinquency.

Adjusting past-due status example

Marty’s oldest dollar is 240 days past due. He files a request for a deferment based on the fact that he is attending school and the enrollment period began on the date that the loan became 90 days past due. The past-due status of the loan is reduced to 90 days, and the loan is given a deferment status. This loan is treated as if the 240-day threshold had never been reached. Therefore, it would not be counted in the school’s cohort default rate.

Penalties for high Perkins default rates

If the school's cohort default rate is

- 25% or higher, the school's FCC will be reduced to zero.
- 50% or higher for the three most recent years, the school is ineligible to participate in the Federal Perkins Loan Program and must liquidate its loan portfolio.

A school may appeal a determination of ineligibility if the appeal is based on an inaccurate calculation of its cohort default rate or a low number of borrowers entering repayment. A school appeals a determination of ineligibility based on an inaccurate calculation by adjusting the cohort default rate data on the FISAP.

BILLING AND COLLECTION COSTS

Your school must charge the borrower for reasonable collection costs associated with past-due payments, if your school opts to charge them (not routine billing costs, which are included in the administrative cost allowance [ACA]), and *collection* costs for address searches, use of contractors for collection of the loan, litigation, and/or bankruptcy proceedings.

If your school cannot recover billing and collection costs from the borrower, you may charge the costs to the Fund, provided the costs fall within the specifications described in the following paragraphs. (Collection costs are included in the ACA, but if collection costs exceed the ACA, you must report the additional costs in the separate collection costs category on the FISAP.) Note that a school may not request a Perkins ACA if it has not made any Perkins loans during the year.

The only *billing* costs a school may charge the Fund are the costs of telephone calls made to demand payment of overdue amounts not paid by the borrower. Even if the amount recovered from the borrower does not suffice to pay the amount of the past-due payments and the penalty or late charges, the school may charge the Fund only for the unpaid portion of the actual cost of the calls.

A school may waive late charges for a borrower who repays an amount past due. Before proceeding with litigation, a school may waive the percentage of collection costs applicable to the amount then past due in a loan equal to the percentage of that past due balance that the borrower pays within 30 days of the date the borrower and school enter into a written repayment arrangement.

Penalty for high CDR

34 CFR 674.5(a)

Billing & collection

Billing and collection firms

34 CFR 674.48

Assessing costs

34 CFR 674.45(e)

Charging costs to the fund

34 CFR 674.47

Perkins Loans and ACA

34 CFR 674.37(a)

Reasonable collection costs

34 CFR 674.45(e)(3)

For loans referred to a collection agency on or after July 1, 2008, collection costs charged the borrower may not exceed:

- first collection effort—30% of the principal, interest, and late charges collected;
- second and subsequent collection efforts—40% of the principal, interest, and late charges collected;
- for collection efforts resulting from litigation, 40% of principal, interest, and late charges collected, plus court costs.

The following *collection* costs may be charged to the Perkins Loan Fund if the costs are *waived* or *not paid by the borrower*:

Collection costs waiver

34 CFR 674.47(d)

Collection costs for loans made from 1981 through 1986

For loans made from 1981 through 1986, many promissory notes contain a limitation on the amount of costs that can be recovered from the borrower (25% of the outstanding principal and interest due on the loan). As this provision has not been applicable since the beginning of the 1987-1988 award year, if these borrowers ask for new advances, the Department strongly encourages schools to issue new promissory notes without this provision and to require the provisions of the new note to apply to repayment of previous advances. The borrower will then be liable for all collection costs on all of his or her outstanding loans borrowed under this program. (However, the advances made prior to the signing of the new note do not qualify for new deferment and cancellation benefits.)

Collection costs waived. If your school waives collection costs as incentive for repayment, the amount waived may be charged to the Fund.

Cost of a successful address search. You may charge to the Fund a reasonable amount for the cost of a successful address search if you used a commercial skip-tracing service or employed your school's personnel to locate the borrower using comparable methods. (Defining a reasonable amount is left to the school.)

Cost of reporting defaulted loans to credit bureaus. You may charge to the fund the cost of reporting a defaulted loan to a credit bureau, reporting any change in the status of a defaulted account to the bureau to which the school had previously reported the account, and responding to any inquiry from a credit bureau about the status of a loan.

Costs of first and second collection efforts. You may charge to the Fund collection costs not paid by the borrower if they do not exceed—for first collection efforts—30% of the total principal, interest, and late charges collected and—for second collection efforts—40% of the principal, interest, and late charges collected. The school must reimburse the fund for collection costs initially charged to the fund but subsequently paid by the borrower.

Collection costs resulting from rehabilitation. Collection costs charged to the borrower on a rehabilitated loan may not exceed 24% of the unpaid principal and accrued interest as of the date following application of the ninth payment. Collection costs are not restricted to 24% in the event that the borrower defaults on the rehabilitated loan.

Costs of firm performing both collection and litigation services. If a collection firm agrees to perform or obtain the performance of both collection and litigation services on a loan, the amount for both functions that may be charged to the Fund may not exceed the sum of **40%** of the amount of principal, interest, and late charges collected on the loan, plus court costs specified in 28 U.S.C. 1920.

Collection costs resulting from litigation, including attorney's fees.

Collection costs resulting from litigation, including attorney's fees, may be charged to the fund if not paid by the borrower but must not exceed the sum of:

- court costs specified in 28 U.S.C. 1920;
- other costs incurred in bankruptcy proceedings in taking actions required or authorized under 34 CFR 674.49;
- costs of other actions in bankruptcy proceedings to the extent that those costs together with other costs incurred in bankruptcy proceedings do not exceed 40% of the total amount of judgment obtained on the loan; and
- 40% of the total amount recovered from the borrower in any other proceeding.

Due diligence activities involving *fixed costs* (telephone contacts, credit bureau reporting, and bankruptcy procedures) may be charged to the fund whether or not the actions are successful. Other activities, such as address searches, collection, and litigation (other than bankruptcy), are typically performed on a *contingent-fee* basis. If these activities are *unsuccessful*, there are no costs charged to the school and therefore no costs may be charged to the fund. If these activities are *successful*, you may charge the associated allowable costs to the Fund.

Assessing and documenting costs

You may charge either actual costs incurred in collecting the borrower's loan or average costs incurred for similar actions taken to collect loans in similar stages of delinquency.

Your school must assess all reasonable collection costs against the borrower despite any provisions of state law that would conflict with the above provisions.

You must document the basis for the costs assessed. For audit purposes, a school must keep documentation supporting costs, including telephone bills and receipts from collection firms.

Limit on charging costs due to litigation

The amount of litigation costs a school charged to the Perkins Loan fund may not exceed the sum of:

- court costs specified in 28 U.S.C. 1920;
- other costs incurred in bankruptcy proceedings in taking actions required or authorized under 34 CFR 674.49;
- costs of other actions in bankruptcy proceedings to the extent that those costs together with other costs incurred in bankruptcy proceedings do not exceed 40% of the total amount of judgment obtained on the loan; and
- 40% of the total amount recovered from the borrower in any other proceeding.

Using Billing and Collection Firms

Your school may use a contractor for billing or collection, but it is still responsible for complying with due diligence regulations regarding those activities. For example, the school, not the billing or collection firm, is responsible for deciding whether to sue a borrower in default. The school is also responsible for decisions about cancelling or deferring repayment, granting forbearance, extending the repayment period, and safeguarding the funds collected.

If you use a billing service, you may not use a collection firm that owns or controls the billing service or is owned or controlled by the billing service. In addition, you may not use a collection firm if both the collection firm and billing service are owned or controlled by the same corporation, partnership, association, or individual.

Account protection: minimum bond/insurance amounts

A school must ensure that its billing service and collection firm maintain a fidelity bond or comparable insurance to protect the accounts they service.

At least once a year, the school must review the amount of repayments it expects to receive from billing or collection firms to ensure adequate bond or insurance coverage.

A school using a law firm to collect must review the firm's bond or its insurance policy to determine whether the firm is protected against employee misappropriation. If the firm's malpractice insurance also covers misappropriation of funds, that policy is considered to provide coverage.

If you **don't** authorize your collection firm to deduct its fees from borrowers' payments, the firm must be bonded or insured for at least the amount that you expect to be repaid over a two-month period on the assigned accounts.

If you **do** authorize your collection firm to deduct its fees from borrowers' payments, you must ensure that:

- if the amount you expect to be repaid over a two-month period is **less than \$100,000**—the collection firm is bonded or insured for the lesser of (a) 10 times the amount the school expects to be repaid over a two-month period on assigned accounts; or (b) the amount the firm expects to collect in a two-month period on **all** accounts it has in its portfolio (not just the school's account).
- if the amount you expect to be repaid in a two-month period is **\$100,000 or more**—the collection firm has a fidelity bond or comparable insurance **that names your school as the beneficiary** and is bonded or insured for an amount not less than the amount of funds the school can reasonably expect to be repaid during that two-month period.

Sources of Information on the Perkins Loan Program

Perkins Loan Assignment Process and Other Financial Aid

Questions regarding the assignment process as it pertains to the rest of the student financial aid award process, or questions concerning the management of student loans not assigned to the Department should be directed either in writing or by phone to the School Participation Team serving your region.

More specific questions pertaining to the procedures for assignment of accounts set forth in this letter, or pertaining to the status of your assignment submissions, or pertaining to the correction of rejected submissions, can be directed to PerkinsLoanAssignments@ed.gov

Federal Perkins Loan Assignment Procedures

Written inquiries should be mailed to:

**Federal Student Aid
U.S. Department of Education
Operation Services, Processing Division
50 Beale Street, Suite 8601
San Francisco, CA 94105-1813**

Assignment Verification

For assignment verification of accounts submitted more than 60 days previously, please e-mail PerkinsLoanAssignments@ed.gov. In order to verify the submission, the e-mail must include the student(s) name(s) and Social Security number(s) in an encrypted file.

As previously explained, missing or defective promissory notes, or missing or incomplete bankruptcy or missing or incomplete judgment information require formal approval by the appropriate Department official.

Therefore, all such explanations should be prepared in writing, with the following signature block provided:

**Approved/Not Approved _____ Assignments Specialist Operation Services,
Processing Division Perkins Loan Assignments**

All such explanations must reference the specific account(s) affected by the documentation omission or irregular nature. The explanatory letter should then be sent to PerkinsLoanAssignments@ed.gov.

A returned approving e-mail will constitute formal approval. Do not contact the assignments processing center with such inquiries.

Closed School Procedures

Questions concerning closed school procedures should be directed to the appropriate School Participation Team.

Discrepancies Between School Data and Department Data

The Processing Division, Perkins Loan Assignments, should be contacted to resolve any discrepancies between institutional records and those of the Department pertaining to accounts that have already been assigned to the Department and accepted. This includes corrections to acceptance notices, bankruptcy notices, and any other general information on accepted accounts that an institution wishes to forward.

FISAP

For questions about the FISAP form, contact the Campus-Based Call Center at **877 801-7168**, or by e-mail at **CBFOB@ed.gov**.

Perkins Loan Program Liquidation

For questions about Perkins Loan Program Liquidation, contact the Campus-Based Call Center at **877-801-7168**.

Repayment of Loans After Assignment

Borrowers wishing to satisfy their debts once their loans have been accepted for assignment should also contact the Department's Customer Service Center.

Institutions wishing to confirm paid-in-full status for borrowers requesting transcripts should contact the Department's Customer Service Center. The contact information for the Department's Customer Service Center is:

U.S. Department of Education
P.O. Box 5609
Greenville, TX 75403-5609
Tel.: 800-621-3115

Total and Permanent Disability Assignments

All Total and Permanent Disability assignments should be sent to:

Nelnet Total and Permanent Disability Servicer
3015 South Parker Road
Suite 400 Aurora, CO 80014

For detailed information about Total and Permanent Disability assignments for Perkins Loans, schools should refer to the September 10, 2010, Electronic Announcement, Subject: Total and Permanent Disability Discharge Information - Perkins Assignment Procedures Effective October 1, 2010 (updated May 27, 2011).

Contact Information for School Participation Teams

URL: [http://ifap.ed.gov/ifap/helpContactInformationDetailedList.jsp?contactname=School Participation Teams](http://ifap.ed.gov/ifap/helpContactInformationDetailedList.jsp?contactname=School%20Participation%20Teams)

e-mail: caseteams@ed.gov

School Participation Team - New York/Boston (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont, New Jersey, New York, Puerto Rico, Virgin Islands)

Boston - 617-289-0133

New York - 646-428-3750

Wash DC - 202 377-3173

School Participation Team - Philadelphia (DC, Delaware, Maryland, Pennsylvania, Virginia, West Virginia)

Philadelphia - 215-656-6442

Wash DC - 202-377-3173

School Participation Team - Atlanta (Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina)

Atlanta - 404-974-9303

Wash DC - 202-377-3173

School Participation Team - Chicago (Illinois, Indiana, Minnesota, Ohio, Wisconsin)

Chicago - 312-730-1515

Wash DC - 202-377-3173

School Participation Team - Dallas (Arkansas, Louisiana, New Mexico, Oklahoma, Texas)

Dallas - 214-661-9490

Wash DC - 202-377-3173

School Participation Team - Kansas City (Iowa, Kansas, Kentucky, Missouri, Nebraska, Tennessee)

Kansas City - 816-268-0410

Wash DC - 202-377-3173

School Participation Team - Denver (Colorado, Michigan, Montana, North Dakota, South Dakota, Utah, Wyoming)

Denver - 303-844-3677

Wash DC - 202-377-3173

School Participation Team - San Francisco/Seattle (Alaska, American Samoa, Arizona, California, Guam, Hawaii, Nevada, Palau, Marshall Islands, N. Marianas and Micronesia, Idaho, Oregon, Washington)

San Francisco 415-486-5677

Seattle 206-615-2594

Wash DC 202-377-3173